THURSDAY AUGUST 27 1998

Sweden's Celsius Defence group adjusts its sights Page 12



UK film industry Lock, Stock and a barrel of hopes



CSFB CLAIMS COUNTRY'S ELITE 'PLUNDERED' CAPITAL 🖿 SOROS FUND ADMITS \$2BN SETBACK IS WORST EVER

OptiMark Colorado challen to the NYSE Technology, Page 16 German taxes A top rate debate Page 2

WORLD NEWS

Clinton and Blair to meet to discuss political 'third way'

President Bill Clinton and Tony Blair, the British prime minister, aim to take part in a conference In New York next month to spread their "third way" alternative to traditional political ideologles.Page 10

Kohl moves up in polls A new opinion poll showed sup-port for Chancellor Kohl's Christian Democrats edged up to 35.2 per cent from 34.5 per cent a week earlier in the run-up to next month's German election, SPD and taxation. Page 2

UK rethink on Sudan raid The UK Foreign Office appears increasingly concerned that the US bombed an innocent target When destroying a pharmaceutical factory in Sudan last week.

China floods hit growth A leading Chinese economist said economic losses from devastating floods across China this vear could be far higher than the official estimate and economic growth could slip as low as 7.3 per cent for the year. Economic Impect, Page 3

US reopens King assassination The US Justice Department said it would reopen its investigation into the death of Martin Luther King Jr., the civil rights leader who was assassinated in April 1968, Page 5

Egypt denies hoking Nidal Egypt denied it was holding wanted Palestinian guerrilla chief Abu Nidal, who was reported to have travelled there to seek treatment for leukaemia. Page 4

Rebels attack Kinshasa Rwandan-backed rebets fighting Congo's President Kabila launched an assault on the capital Kinshasa, inflitrating suburbs near the airport and triggering a fierce artillery battle. Page 4

Chirac urges renewal of ties President Jacques Chirac called for a "renovation" of Franco-German relations, saying current structures should be adapted to the new conditions in Europe.

Evidence of Kosovo abuses Evidence is mounting of systematic human rights abuses against ethnic Albanians arrested in Serbia's Kosovo province on suspicion of links with separatist

rebels. Page 2 FBI to probe Johannesburg bomb Agents of the US Federal Bureau of Investigation were on their way to Cape Town, South Africa to help find the perpetrators of the bomb blast in a Planet Hollywood restaurant. Page 4

Unions prepare for air alliance Unions representing 24,000 pilots employed by British Alrways, American Airlines and their nine partner carriers have formed a global strategic coalition.

UK truckers warn Europeans British truckers are threatening legal action against their counterparts in mainland Europe, if they block roads during a day of action on September 8, Page 6

Dafi fan keeps talking Salvador Dali enthuslast Lluis Colet began an attempt to deliver the world's longest speech to mark the 33th anniversary of the ate surrealist painter declaring Perpignan railway station to be the centre of the universe.

NASOAO Composite Europe and Per East

US Lauchtime RATES

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Yeld 5.44% OTHER RATES 90% 3-mm introducts 112 55% Figure 10 W GR 112 55% Famout 10 W GRT 108.66 Gettings; 10 W Band 107.39 Japan 10 W JSB 112 36 HONTH SEA CH. (Argus) Boott Cate 4 512.68

BUSINESS NEWS

Lufthansa interim profits more than double to DM928m

German airline Lufthansa more than doubled interim pre-tax profits to DM928m (\$513m). underlining its position as one of Europe's most profitable carriers. The airline, which was fully privatised last October, benefited from a fall in costs and strong passenger growth. Page 11

Avesta Sheffield, stainless steel manufacturer, announced 1,000 job losses, mainly in the UK and Sweden, following a collapse in metal prices and growing overcapacity. Page 11

Deutsche Bank shares fell by more than six per cent after Standard & Poor's removed the German bank's triple A credit rating, the highest rating possible. The move coincided with wordes about German banking exposure to Russian borrowers. Page 11; Lex, Page 10

US manufactured durable goods orders rose at their fastest rate for eight months in July, the US Commerce Department said, but the underlying trend still pointed to a reduction in manufacturing activity. Page 5

conglomerate, won permission from the Italian government almost to double its stake in Olivetti's cellular and fixed-line telecommunications businesses to 49.9 per cent. Page 12

Oracle, the world's second largest software company, plans to allow small businesses to rent computing power and software over the nternet, Page 14

Pasminco of Australia, the world's largest zinc producer, reported annual net profits 2.2 per cent down at A\$63.3m (US\$36.5m) because of lower production and higher costs in its home market.

Missan Diesel, troubled subsidiary of Nissan, Japan's second largest carmaker, may lay off more workers because of falling demand in the domestic truck market. Page 13

Teistra, Australian

net annual profits jumped 17 per cent to A\$3bn (US\$1.73bn), but warned of intensifying competition. Page 13

Petronas. Malaysian state oil company, is considering a bid for Engen, the biggest South African oil group, which has interests in both distribution and exploration Page 12; Petronas in LPG venture, Page 13

Pro Sieben, German media group that owns the country's most profitable television network, sald it would invest DM500m (\$276m) a year in the purchase of film rights. Page 12

Asahi Brawerles, Japan's second biggest brewer, plans to review its international activities as part of a bid to expand its share of the global beer market. Page 11

Yardley, 228-year-old English cosmetics company that supplies the Queen Mother with perfume, was put in the hands of receivers, Page 15

Euro Prices

WORLD MARKETS

(~116.15) (~140 15) (~109.0) (~206.90)

(125)

THE FINANCIAL TIMES LIMITED 1998 No.33,688

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A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets.

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Investors face \$33bn losses from Russian bond default

By Our Pluancial and Foreign Staff

Foreign investors in Russian \$35bn, according to a conservative estimate, because of the government's effective default. The losers include George

Soros's investment funds, which admitted yesterday they had lost up to \$2bn as a result of the Russian economic crisis.

The Russian loss is the largest suffered by Mr Soros's Quantum Group, said Stanley Druckenmilier, chief investment strate-gist at Soros Fund Management. Credit Suisse First Boston, the Swiss-owned investment bank, aid that Russian elites had "plundered" the country's capital. It said its profits had fallen more than \$250m in less than two months because of Russia. Paul Luke, a senior emerging

markets trader at Deutsche Bank in London, said losses on foreign holdings of Russian dollar and rouble-denominated bonds could exceed \$33bn. Other estimates have ranged up to \$50km.

Page 10 Page 11 CSFO ipas put at \$500m Page 14 Page 18 Page 19 Page 30

About 75 per cent of the paper value on Russia's hard currency bond debt had been wiped out, Mr Luke said. His estimate excludes not only bank lending and equities but also possible losses on rouble hedging contracts between foreign invest-ment banks and Russian banks, most of which would be unable to honour their liabilities.

One senior US banker said the action would not be forgotten. "I sia's financial turmoil had don't think anybody's going to lend these guys a dime," he said.

Franklin Templeton, a leading. fund manager, said Russia had lost the trust of investors. Mr Druckenmiller, however,

was not critical of the government, "We took a risk and we were wrong," he said. Mr Soros warned in a letter published in the FT two weeks ago that Rusreached a "terminal phase".

CSFB yesterday said net profit The move also raised serious so far in 1996 had plunged from would sustain about 25 per cent

w yesterday as the rouble fell further contracts would be honoured, he half, to \$500m. CSFB, which borne by foreign investment said. Mark Mobius, head of along with its clients accounted emerging market investment at ' for 40 per cent of foreign ownership of the \$40bn Russian government debt market, is believed to have lost at least \$350m - and

perhaps as much as \$500m - in

Russia since June. Andrew inkendanz, the bank's said: "Russian elites have plundered the country's capital and funnelled most of the proceeds offshore."

Traders estimated hedge funds

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Goldman Sachs said exposure to Russia: was "immaterial". JP Morgan, Bankers Trust, Merrill Lynch, Morgan Stanley Dean declined to comment. Analysis head of global emerging markets, said any firms with very large losses would probably feel obliged to make statements.

> Reporting by Philip Coggan. Tracy Corrigan, Clay Harris,

Chernomyrdin in urgent talks with IMF

By John Thorotell in Moscow and Gorard Baker in Washington

acting prime minister, yesterday held emergency talks with the International Monetary Fund as the rouble plummeted again on Moscow's currency market and the country's political crisis deep-

renegotiation of the terms of its loan to the country in the aftermath of the rouble's devaluation. according to a senior US mone-

Breaking off talks with parliathe formation of a new government, Mr Chernomyrdin trav- ble lost 41 per cent of its value

dessus, the IMF's managing Victor Chernomyrdin, Russia's director. Mr Camdessus was in Crimea to discuss the regional economic turmoil with Leonid Kuchma, president of Ukraine. Russia appears desperate to

> tranche of the IMF's \$11.2bn support loan - due in September evaporate. The central bank yesterday suspended and then annulled all

trades in US dollars on the Moscow Interbank Currency Exchange after the rouble fell by mentary leaders in Moscow about 5 per cent. But trading continued in other currencies and the rou-

to find its natural "floor".

Mr Chernomyrdin yesterday Mr McDonough said the imme- ident's state of health.

criticised the central bank for its diste aconomic effects of Russia's David Riley, director of Fitch accelerate the release of the next sis. "Financial and economic polextremely dissatisfied with the tional" fears of contacton. work of the central bank over the

last two days," he said. . William McDonough, the president of the New York Federal Reserve and a key figure in the international response to the Russian crisis, said "some tun- hold Russia's crumbling imancial ing" of the IMF programme was markets together, President Boris 13 per cent.

elled to the Ukrainian peninsula against the D-Mark, falling from more likely than not. He said: Yeltsin was said to be working at of Crimea to meet Michel Cam- 4.49 to 7.6, after the central bank. "To be surprised if the DMF did. his country dacha. Mr Chernoindicated it would preserve its not enter into new negotiations myrdin intends to address the reserves and allow the currency that could have a modification of nation in the near future, height-

Theo Waigel, Germany's finance minister, appeared to rule out the possibility of additional foreign aid. "Bussia must do it by itself," he said.

As Mr Chemomyrdin tried to

the fund programme."

ening speculation about Mr McDonough said the imme-ident's state of health. ening speculation about the pres-

handling of Russie's financial cri- problems for the rest of the world IBCA, said his credit rating should be limited. But he said the agency had lowered its sovereign icy is a question to which I am real risk was the psychological rating for Russia from B minus giving my attention minute by effect on other emerging mar-minute. I declare that I am kets driven by investors "bra-now ranked as the riskless of the 60 countries covered by the agency, including Indonesia.

Russian dollar-denominated Prins, or restructured Soviet-era debt, were yesterday trading at little more than one-tenth of their face value. The RTS-IF index of leading shares fell by more than

US lawyers prepare Nazi labour lawsuits

By Graham Bowley in Frankfurt and John Authors in New York

Several German companies could face legal action - probably next week - over use of slave labour during the second world war. US lawyers warned yesterday.

Michael Hausfeld, the Washington lawyer who took a leading

role in persuading the two largest Swiss banks to pay \$1.2bn to Holocaust survivors earlier this month, said be was preparing complaints against "six or seven" companies by survivors of factories used for the Nazi war effort. While German companies insist they face no legal obligation to pay compensation directly to former labourers, several possible targets, such as Daimler-

Benz, Volkswagen and BMW, have said they would be prepared to contribute to funds for former slave labourers. The plaintiffs include US, British and Dutch citizens, many of them non-Jows. Mr Hausfeld said lawyers were in the closing stages of research to decide which companies it would be best to pursue, "In a week we will have about six or

said. While German companies are most likely to be sued, Mr Hausfeld said French and even US companies which now have German subsidiaries might be involved. Earlier this year, Ford Motor and its German subsidiary were sued in the US over wartime slave labour, in the first

dismiss this case will come to court on September 28. Mr Hausfeld made plain that

lawyers hoped for a faster and more consensual resolution than achieved with the Swiss banks. We want to invite them to a global meeting and request that they give the highest priority to resolving this without the need to resort to litigation," he said. "We are prepared to go to litigation, however."

German companies have been braced for the possibility of demands from slave labourers, or Zwangsarbeiter, after Degussa, the industrial conglomerate, was hit by a lawsuit in the US last week. The suit alleged it made poison gas used in concentration camps and processed gold taken from victims of the Nazis.

Several companies acknowl-edge that slave labourers worked in their factories during the war, but many argue that responsibil ity for compensation should lie with the government as the legal successor to the Third Reich. But Helmut Kohl, German

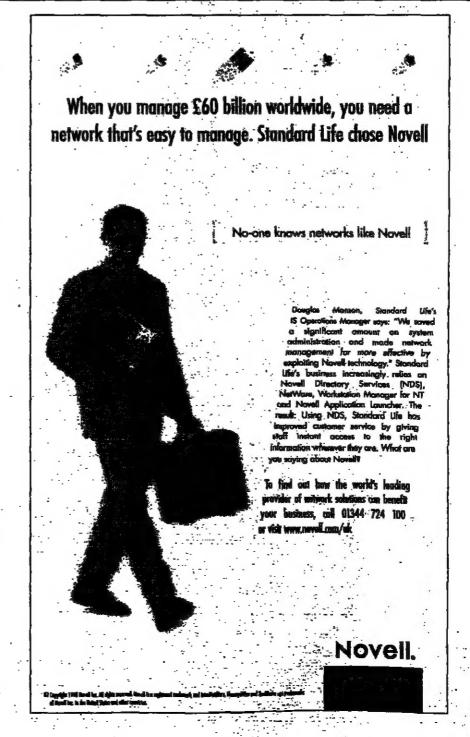
chancellor, insisted last week seven complaints running," he that payments to former slave labourers were the business of individual companies.

Volkswagen, which has said it would set up its own compensation fund, estimates 17,000-20,000 slave labourers from countries such as Poland, Russia, Ukraine, and France worked in its factories between 1941 and 1945, of whom about 1,000 survive.

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UN concern

over Serbian

Evidence-is mounting of

systematic human rights

abuses against ethnic Alba-

Kosovo province on suspi-

cion of links with separatist

rebels. Police have released

the bodies of four men who

have died in custody since

ethnic Albanian villages

used by the Kosovo Libera-

The exact figure has not

been disclosed but detainees

include former political pris-

oners, politicians, local aid

workers, human rights activ-

The office of the United

for Human Rights and the

Human Rights and Freedoms (CDHRF), was seized

on July 6 and died on July

A medical report signed by

a Serb doctor after police

sent him to Pristing hospital

described contusion of the

skull, damaged kidneys.

bruising, broken bones, a ruptured diaphragm and

ists and students.

udicial system.

to be identified.

Banks crippled by restructuring plan

By Tracy Corrigan in New York, Charles Clover in Moscow and Jeremy Grant in London

plan to restructure its Russian banks held half of short-term treasury bill debt the the treasury bills could erase as much as affected by this week's \$12bn from the country's restructuring, while the cenbanking system, along with tral bank and foreign invesvirtually all its liquid assets. between \$13bn and \$16bn in foreign-held domestic debt. analysts said yesterday.

As financial institutions pany, estimated that the new continued to express their securities were worth 80 per dissatisfaction with the cent less than the old trearestructuring, Robert Hor- sury bills. The \$40bn face

man Sachs International, covered in the restructuring ping up the banks by called for greater dialogue had a market value of increasing the money availbetween the Russian govern-

Holger Mueller, a banking analyst with Flemings UCB, the Moscow investment comrestructure. Depending on the future course of the rouble, Mr Mueller estimated that the new securities could be worth as little as \$6.2bn.

ing, under which the government has effectively confiscated securities which the banks relied upon to fund their daily operations. faced with the unenviable

\$31.2bn on August 14, the able to them, which would ment, Russian banks and day the government ultimately be used to buy
The Russian government's international institutions, announced its intent to dollars, or watch them collapse, On Tuesday the bank chose the former course and watched the rouble fall as the new money flowed into dollars.

The debt restructuring Russia's banks have been crippled by the restructurwas designed as a way of reducing Russia's crippling short-term repayments by forcing domestic and foreign holders of high-yielding treasury bills maturing before the end of 1998 to swap them for longer-dated paper that

foreign investors. appointed and let down. The erous to foreign investors mood is very grim," said 'I'm chant Bank.

But Charlie Ryan, chief executive of United Financial Group, said the Russian government should be credited with not discriminating against foreign investors. "No matter how much foreign investors scream, more than half this market is locals," he said. Mr Ryan said the most important consideration was whether the government would be able to

It has won the ire of many manage its budget and have the capacity to service its "Everyone feels deeply-dis- debt. "To have been too gentoday and then to have defaulted on the debt later would have been asmine," he said.

However. Mr Hormats said: "One advantage that other countries have had in similar circumstances is that they have been able to work out a modus vivendi [with foreign financial institutions] and that requires dia

Clinton discusses Moscow summit

President Bill Clinton has spoken to Russia's President Boris Yeltsin as it has become clear that their summit meeting planned next week in Moscow will be held in an atmosphere of deep financial crisis in Russia.

Barry Toiv, a White House spokesman, said Mr Clinton initiated the call and discussed, among other things, "the state of Russia's economy and the steps that the Russian government needs to take" to address its problems. Mr Climton arrives in Moscow on September 1.

According to Mr Tolv, both presidents restirmed the importance of a clear decisive strategy for tackling Russia's economic crisis President Yéltsin stressed that this will be the top priorlty of the new Russian eovernment."

Meanwhile, as Russia's economic plight deepened, a debate continued about whether the crisis could have been avoided had industrialised countries pledged further financial hem earlier this month.

Germany vesterday under ined its position that Russia's finances will stabilise only if it implements the reforms of its financial system agreed with the International Monetary Fund. Bonn that it should have provided more financial support for Russia. Theo Waigel, finance minister, was reported yesterday as saying: "It is now up to Russia, its new prime minister, the governm and the Duma to create the conditions for confidence and stability of the Russian

currency." He also said it was up to Russia to solve its own problems and not the Group of Seven industrialised economies, the IMF or the European Union. Mr Waigel's remarks were blamed fo worsening the Russian plight, Analysts from Medley Beonomie Advisors, a US economic consulting group, said Mr Waigel's "character istically unhelpful comments" had "helped kick off a new wave of sorrows for financial markets".

Germany's role in Russia came under the spotlight after the Frankfurter Allgemeine Zeitung newspaper carried an interview with Stanley Fischer, the IMF's deputy managing director. this week. Mr Fischer linked Germany's reluctance to provide more assistance for Russia to the forthcoming elections on September 27. "I am not sure whether Chancellor Kohl would not have acted differently if the elections were in two years' time and not in six weeks," said Mr Fischer.

tures taken of his corpse show him lying on a bloodstained sheet with extensive bruising and two holes in his mans arrested in Serbia's

"When police bring prisoners to Pristina hospital they are usually near death. commented Behahet Shala, secretary of the CDHRF. Defending Mr Dugolli was

last month, but many others Destan Rukiqi, Kosovo's most prominent human While the Yugoslav army and Serbian police units conrights lawyer, who was arrested after an argument with Judge Danica Marinkovic while seeking access tion Army, police have rounded up hundreds of susto records of his client's testimony during investigation.

Mr Rukiqi was sentenced to two months in jail for insulting the state and Mrs Marinkovic. He alleges that guards beat him unconscious on his back and legs with truncheons and then put him in solitary confine-

Nations High Commissioner Finally he was transferred to hospital and given kidney UN war crimes tribunal in dialysis, then released last The Hague are investigating widespread allegations of weekend.

torture and abuses of the "They want to scare us lawyers not to protect "The UN is very conthe victims. The police, prosecutor and judge are all the same. It is an illusion perned. It is starting to be fairly systematic," said one igator, who asked not neutral judicial system," he Rexhep Bislimi, a 33-yearsaid, lying in bed at old activist for the local home, still with catheters Council for the Defence of

Mrs Marinkovic denied that Mr Rukiqi or anyone else had been beaten in prison and insisted that all deaths in custody were of natural causes.

The Serbian judicial system was so correct and fair, she maintained, that there was nothing for the UN to

bleeding of the lungs. "Some people, after they Cen Dugolli, 32, an activist are released following their jail term, come and thank of the pro-independence me and say bello to me in Democratic League of Kosovo, was arrested on July 8. the street," she added. An official medical report "When they go abroad they says he died on August 17 while undergoing surgery

NEWS DIGEST

FRANCE AND GERMANY

Chirac in call to adapt relations to new Europe

President Jacques Chirac yesterday called for a "renovation" of Franco-German relations, saying current structures should be adapted to the new conditions in

The French president told a meeting of French ambassa dors at the Elysée Palace that France should propose "new even more embitious paths" to maintain the understanding and co-operation between the two countries.

He said relations between Paris and Bonn were more fundamental than ever to the European project. He would raise the proposed renovation with the German chancellor after the approaching German elections. "We will have to clarify the goals and rethink the means of our co-operation in order to reinforce our common destiny and our capacity to lead Europe together."

His comments came some seven weeks after Paris was shakan by a ground-breaking agreement by the Frankfurt and London stock markets to form a single European platform to trade equities. The move suggested to French decision-makers that they could no longer determine the pace of change in France on their terms.

In a wide-ranging speech, Mr Chirac also said next April's Nato summit in Washington should be used to assert Europe's identity more clearly. David Owen, Paris

ITALY SEEKS GROWTH

Euro tax reimbursement plan

The Italian government is to bring forward plans to reimburse citizens with part of a one-off euro tax it levied last year, it announced yesterday, admitting it needed to find new ways of boosting consumer spending and economic growth in 1999.

italy's centre-left government levied the euro tax in 1997 in order to ensure that the country met budget deficit criteria for entry to a single currency. The government has always promised that, once into the euro, it would gradually reimburse citizens with 60 per cent of the tax by the

Vincenzo Visco, finance minister, sald yesterday ministers had now decided to hand back 60 per cent of the tax in a single cash payment early next year, at a cost to the treasury of L3,000bn (\$1.7bn), "so we can give another boost to demand growth," he told the Milan daily Corriere della Sera. James Blitz, Rome

BERLIN WATER UTILITY

Merrill Lynch to advise on sale

Berlin's city government yesterday appointed Merrill Lynch, the US investment bank, to advise on the privatisation of the German capital's water utility, Berliner Wasser Betriebe (BWB). The appointment reflects the city's interest in attracting foreign investors for BWB and follows earlier privatisations of Berlin's electricity and gas utilities in which non-German companies were involved. Berlin intends to sell 49 per cent of BWB. As much as 10 per cent will be reserved for customers and employees. The remaining 39 per cent will be sold to at least two investors

who can hold a maximum single stake of 25.1 per cent. The city has not set a deadline for the sale but wants to include the financial proceeds in the 1998 financial year. Officials would not comment on price expectations but local newspapers report the city hopes to raise DM2bn (\$1.1bn) from the sale. Frederick Studemann, Berlin

Fears rouble could fall much further

and Simon Kaper in London

The rouble could fall much further, currency strategists already in effect fallen below the band of 6 to 9.5 roubles per dollar that Russia announced when it devalued

in the offshore market yesterday international banks were selling roubles at about 13 to the dollar, That implies a devaluation of about 50 per cent since the start of the

Last week, Russia had indicated that it would devalue by only 34 per cent

On the Moscow Interbank Currency Exchange (MICEX) the rouble fell 5 per cent against the dollar before trade was suspended and all deals declared void. The central bank set no

central rate for the rouble against the dollar vesterday. and announced a rate for Against the D-Mark, the

rouble plunged 41 per cent on the MICEX yesterday, being fixed at 7.6, down from 4.49 the day before Traders suggested the centrai bank was trying to find the natural "floor" for the rouble in the relatively small

However, the central bank's ability to stem the rouble's decline is limited by its lack of hard currency

tral bank's foreign exchange and gold reserves stood at Currency strategists expressed surprise that the International Monetary

Fund and western countries

As of August 14, the cen-

had stood by as Russia in effect defaulted on some of its debt. Previously, the market had thought the west would step in to prevent almost

Now traders are scouring the world for other countries that could follow Russia's

"First on the list of those that might is easily Ukraine," said Juliet Sampson, emerging markets analyst at Bank of America in

Pakistan is another one with question marks. I don't think anyone else is near She also warned that if the

rouble devalued further, Russia might default on its dollar-denominated debt. Russia's one alternative to further devaluation was to impose capital controls, she said. That would make Rus-

Andrew Inkendanz, head

of global emerging markets at Credit Suisse Group, said: "What the central bank has done in dealing with this crisis is just insane. Under what circumstances does a central bank inject liquidity into the banking system a day before a debt restructur

What on earth did they think was going to happen He added: "You are going

to find the rouble at 20 Ito the US dollar) unless some one says we have to take

SPD promises Germans small tax reforms or none

Opposition says if it loses the election it will continue to block Kohi's plans, writes Tobias Buck



A Germany's tax system is a shambles. Income tax rates are high by almost any standard and a myriad of tax breaks and loopholes make the system unfair and complicated. So complicated. in fact, that even Roman Herzog, the federal president and former tax expert at Germany's constitutional court, has admitted to difficulties in filling out his tax

form. Reform has been on the agenda for more than a year. The Social Democratic party last June blocked government hopes for a "reform of the century" in the Bundesrat, Germany's second legislative chamber representing the federal states, or Länder. Chancellor Helmut Kohl and Theo Waigel, his finance minister, promised to make the general election - now just a month away, on September 27 - a plebiscite on

their tax reform plans. tactics prevalled: Oskar

winning the chancellorship better than at any time dur- cent to 15 per cent. ing Helmut Kohl's 16 years m power, the last thing Mr Lafontaine wanted was a

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SWEDEN:



Orobestrating changes: Theo Waigel, finance minister, promised to make the election a plebiscite on government tax reforms.

brought the SPD Länder

chiefs into line. Mr Kohl and Mr Waigel were furious. Never before. they raged, had an opposition used the Bundesrat in such a destructive and cynicai way.

The proposals by Mr Kohl's Christian Democrat Although many SPD-led Union and its Bavarian sis-Lander favoured the govern- ter party, the Christian ment's proposals last year. Social Union, look surprisingly radical, particularly as Lafontaine, the SPD's chair- far as Germany's famously man, saw no reason to help bigh income tax is conout the man be wanted to cerned; the top income tax unseat only 15 months later. rate would be cut from 53 With the SPD's chances of per cent to 39 per cent, the bottom rate from 25.9 per

Mr Waigel claims the government's plans would give German taxpayers an overall vote-winner for the govern- tax relief of DM30bn ment. To the dismay of (\$16.5bn), despite a widemany Social Democrats, Mr spread pruning of tax advantages and write-offs.

The SPD, too, has promised income tax cuts, albeit on a less generous scale. The

later to 15 per cent. Gerhard Schröder, the party's candidate for chancellor, has repeatedly said he would like to see the top rate lowered further, but the party has now decided that more

cuts will come only after a thorough examination of the nation's finances. Instead, the SPD has emphasised the need for tax cuts for average earn-

ers. "What we need are employees with money in their pockets," Mr Lafontaine told an andience at the party's campaign launch last plans, he claimed, an average family that at present loses nearly 30 per cent of levies would gain DM2,500 a

Should Mr Schröder become chancellor, as recent opinion polls suggest he may, the SPD also wants to introduce an "ecological tax than the SPD's cautious reform" to raise taxes on approach, recent opinion per cent, the bottom rate to energy and fuel consumption polls suggest that voters

Lafontaine ruthlessly 21.9 per cent initially and in order to help finance a cut regard the SPD as more comin business's non-wage labour costs and so price people back into jobs. But tax experts doubt

whether the SPD's limited tax cuts will help tackle what is perhaps the most harmful effect of the country's tax system - a decline in tax morality. As Erwin Huber, the Bavarian finance minister, once quipped: "The Germans' instinct for tax evasion is stronger than their urge to reproduce."

Thanks to an army of 53,000 tax advisers, many wealthy Germans manage to avoid paying any income tax at all, while workers have been driven into a buoyant black economy. This leaves the finance ministry with a gradually shrinking tax base - and revenue shortfalls.

While most economists appear to agree that the govment's tax reform offers better chances for growth, investment and job creation

This reversal of fortune

for years the SPD had to fight an image of tax-andspend - has a lot to do with have put the blame for the failed reform package on the government and not, as Mr Kohl hoped at the time, on Mr Lafontaine Moreover, the SPD chief

has insisted over the last two weeks that his party would if it lost the election continue to block the government's reform in the Bundesrat, where it will have a majority for some time to come. That threat leaves voters with the unenviable choice between a comprehensive shake-up of their tax system that might fail in the Bundesrat or a number of cautious reform steps that could have a good chance of being put into practice.

The final verdict will be delivered on September 27. but as things stand, Mr Lafontaine's gambles appear to be paying off.

ROMANIAN ECONOMY FINANCE AND PRIVATISATION CHIEFS ATTACKED FOR SLOW PACE OF REFORM

Premier threatens to sack ministers

By Stefan Wagstyl and Virginia Mersh in Bucharest

Radu Vasile, the Romanian prime minister, has threat- sation too slowly. ened to dismiss his finance and privatisation ministers. fuelling concern about the stability of his four-monthpace of economic reform.

old government and the slow in an interview with the FT. Mr Vasile said he was unhappy with the performance of Daniel Daianu, the finance minister, and Sorin Dimitriu, who is responsible for privatisation.

ment - people who don't just for funds. talk about things but people who take measures."

While Mr Vasile said he was planning an early cabi- centre-right government, net reshuffle, bankers in which was formed after a government would continue includes sales to foreign Bucharest were divided protracted political crisis to suffer from in-fighting but investors this autumn of about whether he would carry out his threats, espe- this year. He heads a cially with regard to Mr multi-party coalition which The prime minister, a pany, and of two banks, as

Harvard-educated economist, best known reformer in the of delaying the preparation government. Mr Daianu high hopes that it would of new legislation, and Mr declined to comment directly accelerate reform. Political his top priority. Dimitriu of pursuing privati- on Mr Vasile's attack but rows have supped business The main challenge was Mr Vasile said: "I want to more bureaucratic than oth- recession. GDP fell 6.6 per monopolies, such as electrichave very decisive and ener- ers" and had to take its time cent last year and is expec- ity and gas utilities, which getic people in my govern- about responding to requests ted to drop a further 4 per were being prepared for

The prime minister's stock market has fallen by words will do nothing to more than 50 per cent in US boost confidence in his dollar terms this year. .

said his ministry was "not confidence at a time of deep restructuring big state cent in 1998. The Bucharest eventual partial privatisa-

Mr Vasile recognised his The privatisation plan that stalled reforms earlier pledged to "keep together stakes in Rom Telecom, the this very difficult coalition". telecommunications com-He accused Mr Daianu, a Daianu, internationally the won power from former 55-year-old former economics well as smaller disposals.

Communists in 1996, amid professor, emphasised that

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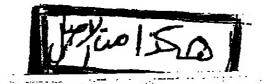
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\$1bn as IMF eases terms

By Peter Montaguon Asia Editor

Indonesia yesterday drew a further \$1bn from the International Monetary Fund and sacked the head of Bulog. the controversial state food distribution agency; in moves seen likely to underpin recent gains in its cur-rency, the ruplah.

In recognition of the broad structural nature of Indonesia's reform programme, the IMF also agreed to transform its rescue loan into a \$6.2bn "extended" facility which means the country will have more time to repay.

Michel Camdessus, IMF

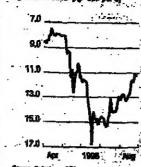
managing director, noted Indonesia's "good" implementation of reform, but he said monetary policy must be kept tight to contain inflation and safeguard the exchange rate, while rapid progress was needed on bank and corporate restructfor future growth.

Bankers said the dismissal of Beddu Amang from Bulog was a sign the government was now seriously trying to tackle problems in the distribution of rice, cooking oil and other essential commod-

Bulog has come under fire recently amid widespread allegations that subsidised food donated from abroad has been diverted for reexport. The agency will now be beaded by Rahardi Ramelan, trade and industry minister, who is expected to exercise tougher control.

reform and an inflow of and rising rupiah, he said. funds from official donors has seen the rupiah strengthen some 50 per cent background confidence, other Asian currencies have privatisation programme With the dollar now trad-

ing at just above Rp11,000. company.



Ginandjar Kartasasmita, chief economic minister, said it was now on track to meet the year-end target of Rp10,000 agreed with the IMF. However, bankers said further weakness in the yen could still knock the rupish off course,

bank and corporate restruct-uring to lay the groundwork at Standard Chartered Bank in Singapore, said Indonesia. was not yet in a position to attract long-term private inflows that would sustain the currency in the long run.

A modest revival in exports, weak imports and lack of pressure from debt repayments were keeping the currency up, added Chris Tinker of ING Barings in Hong Kong, but its strength would raise pressure for lower interest rates as happened in Thailand after the baht stabilised.

The Indonesian authorities remained worried about the risk of hyper-inflation and Progress in implementing were happy to see a stable Also there were some local factors which could still sap since June, even while some including worries about the after delays to the sale of Semen Gresik, the cament

NEWS DIGEST

Share Buying and Liquidity Squeeze

Hong Kong raises stakes against speculators

Hong Kong's government stepped up its battle with speculators yesterday, as the Hong Kong Monetary. Authority combined its share and futures buying with a squeeze on liquidity in the money markets.

The Hang Sang has risen some 18 per cent since the government turned buyer a forblight ago, spending upwards of US\$2on in a campaign to eliminate spec tors betting on a falling stock market. By draining liquidity in the money markets, interest rates rise and speculators who are obliged to buy Hong Kong dollars to fund their

positions - pay a higher cost.
Yesterday the overnight interbank interest rate hit 20 per cent, although it gradually fell back to close the day at around 10 per cent. The benchmark three-month interest rate closed marginally lower, at around 12 per cent. Dealers attributed this to "selective" funding by the monetary authority in the afternoon. Louise Lucas, Hong Kong

PAKISTAN POLITICS

Ally quits Sharif coalition

Pakistan's ruling party, the Pakistan Moslem League PML), suffered a significant setback yesterday when an important sily in the southern province of Sindh withdrew its support. The break raised the possibility that the PML-

led provincial government could fall.

The Muttahida Qaumi Movement (MQM) said it was ending a 17-month alliance with the Moslem League, which is led by Nawaz Sharif, the prime minister, because it had not kept its promises. These included improved security conditions in MQM neighbourhoods and the removal of

paramilitary rangers.

The MQM considers itself the representative of Unduspeaking Moslems who migrated from India 51 years ago. Farhan Bokhari, Karachi Editorial comment, Page 9

PHILIPPINE ECONOMY

Warning of GDP contraction

The Philippine government warned yesterday gross domestic product growth in the second quarter could be negative for the first time in six years, following a slump in

the agriculture and manufacturing sectors.
Felipe Medalla, head of economic planning, said manufacturing had contracted by 12 per cent in the first half, and agriculture, which contributes 22 per cent of gross

netional product, by 7.2 per cent.

The government releases second-quarter figures tomorrow. Economists have been progressively downgrading growth forecasts and, increasingly, predicting a recession

Paribas Asia Equity is forecasting a GDP contraction of 1.7 per cent in 1998. Justin Marozzi, Manila

Allied ex-chief in fraud charge

Lee Ming Tee, former head of the Allied Group, one of Hong Kong's earliest investors in China, was yesterday charged with fraud offences involving HK\$700m (US\$90m). Mr. Lee was arrested the previous evening at the Hong Kong/China border five years after the government concluded a HK\$46m investigation into his activities at the Aliled Group, a sprawling empire that included property, manufacturing and seafood interests. Mr.Lee resigned

ASIA-PACIFIC

Jakarta draws Australian poll likely in October

By Gwen Robinson in Sydney "election alert" and have matches from November.

Australia's prime minister, John Howard, gave the first concrete indication yesterday that he was preparing to call an early election.

Mr Howard said in a television interview that he was contemplating an early election but had not decided the date. However, party offiannounced at the weekend, probably for an election by early or mid-October.

Howard's Liberal party, meanwhile, began this week to set up new campaign headquarters in Melbourne.

been told to finalise out-

fied that a date could be week to Mr Howard's assurwould not be on the same

Friday, said bureaucrats. Mr until mid-1999. But government officials fear the economy could deteriorate fur-

ther next year. in the last two weeks, Mr Confirmation of an elec- Howard's recently launched tion would end months of package of proposed tax uncertainty. In a sports- reforms, featuring a 10 per income tax cuts, has lifted ances that the election his coalition's standing in opinion polls. For the first weekend as the "footy" (foot-ball) finals in October and has drawn ahead of the have also been placed on would not clash with cricket Labor opposition.

Mr Howard's Liberal- the new support has come at announcement today of its standing paperwork required national coalition is not the expense of One Nation, rival tax package, which will ing ministerial approval by required to go to the polis the populist party led by the reportedly offer an A\$30 independent MP, Pauline

One Nation made rapid ains in rural areas following its stunning electoral elections earlier this year. The party has played on growing disaffection among cials in Mr Howard's conser-fixated society, prominence cent consumption tax and growing disaffection among vative coalition were noti-was given earlier in the A\$13bn (US\$7.5bn) worth of rural voters, criticising the government for favouring big business, Aborigines and Asian migrants over nary Australians".

An election decision this weekend would also take the

(US\$17.4) a week in average tax cuts for lower-income families. Business leaders

debate to degenerate into a majority in parliament.

yesterday warned both parties against allowing the tax

"political slanging match". Mr Howard is understood to have conceded privately that his government would lose some seats in an early election, while expressing confidence it would retain power with a double-digit His coalition won the



landslide, ending 13 years of Labor rule and giving it a 44-seat amjority in the House

China's growth target fades as focus is on floods

attention from economic problems to matters of life and death. The diversion has permitted the government to-

begin a quiet revision of the nificant. By moulding public many economists put losses at between RMB200hn to China's government is allowing its promise of 8 per cant target, which until expectations, the government at between RMB200hn. A total of 223m economic growth to the new government of Zhu per cent growth in the first the floods and 21m hectares fade amid a cacophony of Rongil, the prime minister, propagands to help fight the commentators said.

President Jiang Zemin was

The floods, which were officially said yesterday to have killed 3,004 people, have turned the public's newspapers have referred to newspapers have refered to the need for "relatively rapid growth", rather than repeating the 8 per cent mantra.

Mr Zhu, who "guaranteed" 8 people have been affected by per cent growth in the first the floods and 21m hectares television address of his premiership in March. It also flexibility into economic policymaking, thereby reducing pressure for a cur-rency devaluation to boost

The official Xinhua news agency yesterday put the direct losses from the floods at RMB166.6bn (\$20bn) but

miership in March. It also The government has not introduces an element of so far tried to use nature's wrath as an excuse for flagging economic growth. Hu Angang, a respected economist, wrote yesterday that the difficulties in attaining 8 per cent growth would

spring more from inherent

economic problems (such as

opportunity. The rhetoric and selliess deeds featured almost daily on television show the reawakening of a communal spirit which was threatened during the past years of incentive-driven reforms. One television clip showed

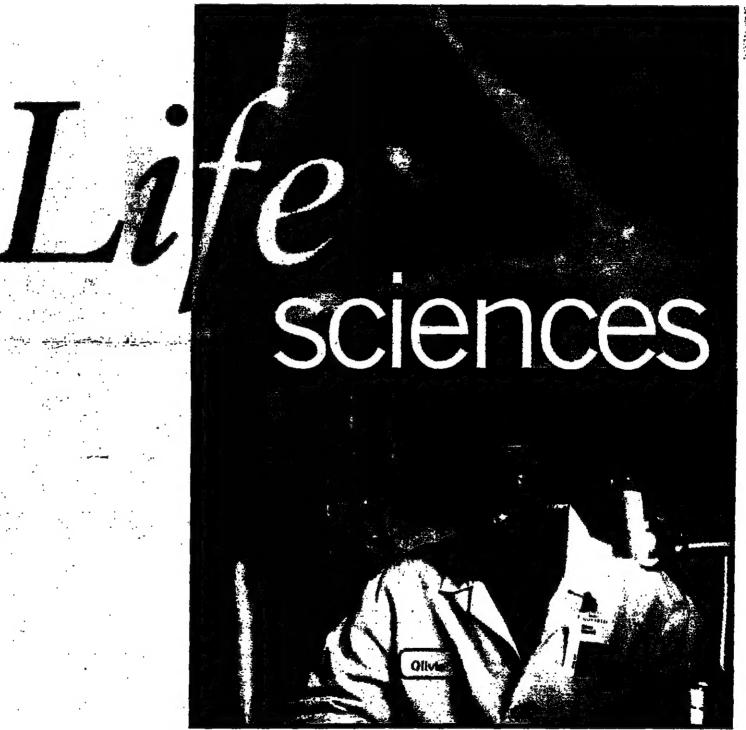
than from flood damage. The deluge has, however,

with a rare propaganda

a young woman squeezing her breast milk on to the bare backs of soldiers to

"revolutionary spirit" have became common.

The propaganda also helps to keep the focus of public opinion away from the fact that the floods - even by official admission - are at least partly man-made. Rivers have not been dreshed sufficiently in recent years, soil erosion and earth from construction projects has

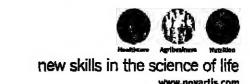


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INTERNATIONAL

Congo rebel forces infiltrate Kinshasa

By Michela Wrong in Kigall

The war in Democratic Republic of Congo finally reached the riverside capital of Kinshasa yesterday as rebel forces, pressed hard from behind by advancing Angolan troops, infiltrated the east of the city.

The boom of heavy artillery and bursts of automatic fire echoed across the city of 5m people and helicopter gunships buzzed overhead as heavily equipped Angolan conflict characterised until the guerrillas attacked two suburbs near the city's airport in what diplomats described as a "desperate left open. State radio showdown, nervous resiact". The rebels, who have referred to the fighting as dents ignored government

outh Africa's four-year-

Sold democracy is fast discovering that the role

of regional superpower in

Africa is as frustrating and

unrewarding as the job of dobal superpower is for the

US. If the government of President Nelson Mandela

takes decisive military or

been on the run since "mopping up operations" advice to go about their busiAngola and Zimbabwe and Didier Mumengi, inforness as usual, staying off the tion created by the southern as under threat. entered the fray in President Laurent Kabila's defence last weekend, first tried to enter Kinshasa from the south-west, but shifted their line of attack after being repelled by Congolese and Zimba-

vean troops. Having lost control of Kitona, the air base linking them with their strongholds in eastern Congo, and with a first serious fighting in a force harrying them from recently by brief skin the southwest, advancing and tactical retreats. was one of the few options

Democratic S Africa finds its

neighbours hard to convince

problems as regional superpower, writes Victor Mallet

Lack of enthusiasm for Congo peace plan shows up Pretoria's

mation minister, played down the infiltration, telling state radio that enemy sol diers cut off from their rear nearby forest.

But hundreds of soldiers with bullet and shrapnel wounds were reported to be pouring into Kinshasa's general hospital, evidence of the recently by brief skirmishes Aware of the approaching

deserted boulevards and closing their shops. Security near the Marble Palace, Mr

With the trapped rebels facing either surrender or massacre, regional analysts were watching to see whether Rwanda and Uganda, the movement's clandestine backers, would move that would escalate the war yet further.

But there were hints yesterday that the two allies at what point Kigali would rebel control.

African military interven- Sensing victory within its tion and regretfully coming grasp, an ebullient Congoto terms with the prospect of Kabila's residence, was a Congo still under Mr Kabila's rule.

In Kigali, where officials were privately insisting last the ports of Matadi and week that Mr Kabila "must Banana, the Kitona airbase go", Patrick Mazimhaka, a and the oil town of Mwanda. presidential adviser, said Rwanda would defend itself "when we feel our country is carry out threats to inter- threatened, if it is under that the central city of Kisvene openly in the conflict, a attack or if there is sufficient evidence that its attack

But he refused to specify

lese government announced that the allied forces had recaptured a string of key towns in the west, including

But South African intelligence officials said Matadi was still in rebel hands and angant, reported on Tuesday to have fallen to the allied forces, had been badly bombed but remained under



Congolese soldiers on their way towards fighting at the international airport in Kinshasa yesterday. All

guered government of Laurent Kabila against a rebel onslaught, preside over "full democracles": peither has consulted his own people on the wisdom of a foreign war. But that is not the only reason for the region's lack of enthusiasm for the South

diplomatic action, it risks accusations from its neighhours of bullying and inter-African peace plan. Like ference; if it does not, it is criticised as callous and inef-Japan in post-war Asia and Germany in Europe, South Africa is often regarded with That is one reason why South Africa is having such intense suspicion by its difficulty persuading other poorer and weaker neigh-African countries to adopt a peace plan for Democratic South Africa's economy is 20 times the size of the next

Republic of Congo that is biggest in the 14-nation regarded as eminently sensi-ble by most foreign powers. It comprises a ceasefire and Southern African Development Community, and three negotiations between Congotimes as large as all the lese parties leading to elecother members put together. Not all African leaders have "South Africa is doing been happy to see South what we expect of a country African banks, brewers, minthat is a full demogracy, ing companies and supermarket chains pouring says Greg Mills, national director of the South African investment into their coun-Institute of International tries after the end of apart-Affairs. "We're doing the heid and the lifting of ecoright thing. We've managed nomic sanctions against

Pretoria.

Nor have they forgotten

Unfortunately neither the military might the for-Eduardo dos Santos nor Rob- mer regime wielded in ert Mugabe, the Angolan and southern Africa, occupying

basis for a settlement.

to hammer out some sort of

Zimbabwean leaders who have defied Mr Mandela and and Mozambique, and fresent their armed forces into Congo to support the beleaquently launching raids and air strikes into neighbouring countries in pursuit of Afri-can National Congress guer-

As a director of one of the big South African conglomerates with interests in southern Africa out it this week: "All the countries are very worried that South Africa will just take an exceedingly dominant role. I don't think that feeling is going to disappear."

South African foreign policy is undermined by other problems as well. President Mugabe, who is leading a rival faction within SADC in opposition to South Africa's attempts at peacemaking, gets on particularly badly with Mr Mandela - probably because he resents having been eclipsed as the region's leader since apartheid ended and Mr Mandela came to Another weakness is the

ineffectiveness of the South African foreign ministry under Alfred Nzo, the 73year-old minister. "He's not dynamic enough to really push things through," says one foreign diplomat. The charming but imperious Mr

on the spot in his discussions with other world leaders, leaving the foreign ministry stumbling behind with no idea what is happening. Lastly, there is no consen

sus within the ANC about the direction the country's foreign policy should take. On the one hand, as a free market democracy, South Africa frequently adopts positions in tune with those of the western powers. The US and Europe therefore see South Africa as a friendly nation that can represent their interests in Africa,

Congo - mock South Africa as an agent of the US. On the other hand, Mr Mandela and the ANC that supported them during

while left-leaning African

governments - including

those of Zimbabwe and

including enemies of the US such as Cuba and Libya while the ANC's communist and trade union allies are still wedded to old-fashioned

The result is a muddle. with South Africa's international policies wobbling between pro-western positions and traditional thirdworld leftism. (It hosts the Non-Aligned Movement summit in Durhan next week.) To make matters worse South Africa's dream of an

"African Renaissance" - a flowering of democracy, culture and economic growth across the continent - is in tatters following the outbreak of wars in eastern. western and central Africa. Only a rapprochement with Gen Abdulsalam Abubakar. remain loyal to countries the Nigerian military ruler who has promised to return

holds out a glimmer of hope Pretoria, aware of the sen

sitivities of its neighbours has deliberately adopted a low-key style of diplomacy in Africa. "In the region, it's been an 'after you' approach a softly-softly approach," says Mr Mills. Such tactics cut little ice with the grow ing number of belligerents involved in the Congo war but it is hard to see how a more robust diplomatic drive would do anything other than antagonise South Africa's rivals still more.

Only a disaster for one or more of the foreign armies embroiled in Congo is likely to persuade other African governments that South Africa - still struggling to bring the parties to the negotiating table - is not such a malevolent regional super**NEWS DIGEST**

CAPE TOWN BLAST

FBI to help find Planet **Hollywood bombers**

Agents of the US Federal Bureau of Investigation were on their way to the South African tourist resort of Cape Town last night to help find the perpetrators of the bomb blest in a Planet Hollywood restaurant which killed Fanle Schoeman, an employee of Standard Bank, and injured 27 other people on Tuesday.

South African officials said the device - apparently planted by local Islamic extremists following the bombings of US embassies in east Africa and retaliatory missile attacks by Washington on Sudan and Afghanistan - was

probably a home-made "pipe-bomb".

Criminal gangs operating in the Cape flats area behind Table Mountain have exploded dozens of such bombs in recent weeks in feuds over control of the drug trade. Two callers to a Cape Town radio station said a local organisa-tion called Moslems Against Global Oppression had carried out the attack, but a spokesman for the group denied involvement.

While political leaders in South Africa and overseas condemned the bombing, South African tourist organisations took stock of the damage to the country's vital tourism industry. Victor Mallet, Johannesburg

LOCKERBIE TRIAL

Libya asks for more time

Libya has asked the United Nations Security Council to delay a decision on the Lockerble case until it can study American and British documents on handing over two suspects to the Netherlands for trial in the 1988 bombing of

in a letter to the Security Council received late on Tues day night, Ramadan Barg, Libyan chargé d'affaires, said he was surprised to learn of a draft resolution, proposed by the US and Britain. He said Libya was arxious to resolve the dispute and needed "sufficient time" to study the documents detailing the offer to hold the trial in the Netherlands under Scottish law by Scottish judges.

After a Council session yesterday, Stephen Gomersal Britain's deputy representative to the UN, expressed hope for the "acceptance of the proposal by the government of Libya and the eventual resolution of the dispute". Laura Silber, New York

abu Nidal

Egypt denies holding guerrilla

Speculation over the whereabouts of Abu Nidal, the Palestinian guerrilla chief, mounted yesterday as Egypt denied it was holding him in detention and said he was not even in the country. Amr Moussa, Egypt's foreign minister, was commenting on fresh reports that Abu Nidal, wanted in several countries for attacks on Israeli and other targets. was being held in Egypt.

Abu Nidal, whose real name is Sabri al-Banna, heads the Fatah Revolutionary Council, one of 12 groups which had its assets frozen by President Bill Clinton in 1995 for waging campaigns to undermine the Middle East peace process. He has been linked with bombings and assassinations in a global guerilla campaign that was launched in the mid-1970s. International Staff

WORLD TRADE

AVIATION MOVE AHEAD OF BA-AA ALLIANCE

in face of airlines' link

By Robert Taylor and Guy de Joogulères in London

Trade unions representing 24.000 pilots employed by British Airways, American Airlines and their nine partper carriers have formed a global strategic condition, it was announced yesterday.

The move is seen by the unions as a precautionary action before confirmation that the two mann airlines have secured the go-shead for forming the largest alliance in aviation history.

"We have come together to protect ourselves if the BA-AA alliance goes ahead". said Chris Darke, general secretary of Balpa, the UK

We have come together to protect ourselves if the BA-AA alliance goes ahead'

gilets union.

We want to be well organised on a global scale before the alliance is born. Pilots and flight engineers of the carriers are determined the BA-AA Alliance will work for them and not against them." he said.

We are determined the uirlines won't be able to pick off the flight crew of any one carrier or put one union against another".

The nine airline partners with BA and AA are -Quantis, Canadian Airlines, Finnair, Iberia, Lot, Cathay Pacific, JAL, Lan Chile and the Argentinian Airline.

The trade union coalition intends to concern itself with collective bargaining agreements, developing a global strategy for flight crews worldwide, and using appropriate actions to pro-tect each other's interests". The unions involved also

pledged to "avoid any action that would undermine" any other member association or pilot group that belongs to the alliance. Meanwhile, several large US airports are opposing testrictions, which the Euro-

pean Commission is considering imposing on the BA! AA deal and the alliance between United Air Lines, Lufthansa and Scandinavian Airlines Systems, saying the plan could harm international air services.

The airports object to a proposal to require the two alliances to reduce for six months the frequency of their weekly flights on certain transatlantic routes. if asked to do so by a competi-

The airports, Chicago O'Hare, Dallas-Fort Worth, Miami and Washington Dulles, say in a letter to the Commission that the proposal would disrupt existing air transport arrangements without increasing competi-

They say many local communities in the US would suffer a reduction in transatlantic services, because new competitors would be unable to provide the domestic feeder links from international "gateway" cities. which the members of the alliances operate.

The airports, which are "hubs" for either American or United, accuse the Commission of under-estimating the benefits of airline alliances, which they say have led to substantial increases in traffic on several popular

nsatlantic routes. Airport authorities in Los Angeles and New York may also join the protest against the EU proposals. The Commission, which gave conditional approval to the two alliances last month, is lawful, reasonable and proposals later this year.

Aid for defence rationalisation urged Japanese

By Alexander Nicoll, Defence Correspondent

European governments should aid rationalisation of the defence industry by offering tax concessions similar to those provided by Washington to assist restructuring by US defence manufacturers, the Society of British Aerospace Compa-nies (SBAC) said yesterday.

The industry body said the US government provided tax concessions worth \$179m out of total restructuring costs of \$849m up to September

1996 following a rapid series of mergers and acquisitions which was spurred by the

"Similar assistance would be of considerable benefit to European companies," the SBAC said in a paper. If such direct help was unavailable, governments should back pan-European assistance such stepped-up support for research. Governments are pressing

for consolidation of the overand defence industry, but

Corporate strategists turn to

Latin America for bargains

the biggest barrier remains French state holdings even after Paris last month agreed to divest a majority of Aeros-

Though the SBAC argued rationalisation must be driven by commercial principles, it said: "It may be necessary to make some concessions to assuage French concerns, especially in the area of long-term commitment to core European programmes and to Europeanlevel technology acquisi-

SBAC officials said this

week's decision by British Airways to make its first purchase of Airbus aircraft was likely to help demonstrate such a commitment.

The society called for a common European defence procurement policy to aid industry rationalisation, but cautioned against a "fortress Europe" mentality and said UK industry must retain and build on its access to the US

SBAC figures published yesterday showed the UK erospace industry last year

Europe's biggest, with 12.5 per cent of the total turnover of companies in Europe, North America and Japan. The US share was 54.9 per cent and France's 11.6 per cent. UK serospace industry turnover rose 8 per cent in real terms in 1997 to £15bn, while direct employment rose marginally to 121,000. Civil aerospace has been steadily closing the gap on military aircraft and now

overtook France's to become

accounts for 46 per cent of turnover. The UK industry's operating profit margin was sian ventures.

As clouds gather over Asia, key investment decision-makers are looking to other emerging markets, writes Emiko Terazono merging markets may ing overseas investors from

have become dirty words among global portfolio managers but corporate financiers are finding that they are not such a bad place to be.

The sharp fall in currencies and equity prices has made assets in emerging markets around the world affordable, and economic reforms led by the international Monetary Fund have forced governments to open up what used to be highly protected markets to foreign investment. Although net capital flows to developing countries have declined, strategic investment activity

> However, after a record number of cross-border strategic investments in 1997 and the first half of this year, some analysts warn that there may be a few clouds gathering over Asia, and the flow of corporate deals may be concentrated in Latin America.

has increased sharply.

There is a huge bottleneck ln investment in Asia because of insufficient legislative infrastructure and increasing disagreements over prices between investors and sellers, says Him-mat Kalsi, analyst at the World Bank. The announceexpected to decide on the ment last week by the Indonesian government prevent-

purchasing a majority stake in Semen Gresik, the stateowned cement group, highlighted the pressures on governments not to sell national assets to foreigners and has raised questions over the speed and extent of privati-sations in Asia. Although Asia has seen a

surge in interest from western corporate investors, and numerous negotiations are being held, investment bankers point out that only about a third manage to reach an Latin America, on the

other hand, does not have the structural barriers and is benefiting from the sheer size of the transactions, led by privatisation deals in countries including Brazil. "The market accessibility is definitely there. They have a longer history of inward investment." says one investment banker.

The second half has already seen big deals, including the privatisation last month of Telebras, Brazil's state-owned telecommunication operator, which raised \$19bn, and ABN Amro's purchase of Banco Real, the Brazilian banking group, for \$3bn. "It is where it's happening. Everyone out of Asia over the past wants a foothold," says a month - British Telecom

the region is expected to total \$50bn this year, according to bankers. Although the recent market volatility may lead to some delays, Brazil is planning the sale of electricity generators controlled by the state-owned Electrobras, while the Ecuadorean government has announced it will attempt to revive telecoms sales in the next six months. Interest is high in the telecommunications, utilities and financial sectors, according to Roger Ullman, who heads Merrill Lynch's M&A operations in Latin America.

I hile Asia is currently Wave of investors attracted by cheap prices many multinationals are already established in the region - companies in search of investments in Latin America do not find the declines in prices a big factor, say bankers. Corporate investors looking to go global such as Telefónica of Spain and Usinor, the French steel group, are seeking intrinsic value, says Mr Ullman.

Although some investment announcements have come banker based in New York. announced its £250m (\$410m)

investment in Binariang, a Malaysian telecom company, while Holderbank of Switzerland bought a 25 per cent stake in Siam City Cement, a leading That cement maker, for \$153m - other stumbling blocks for corporate inves-

That said, multinational companies are acutely aware of the other side of the coin the risk of missing the current opportunity in Asia. In Asian markets, where economies are relatively small, the number of assets a multinational corporation can buy is ing at Flemings.

tors also remain.

capital is forcing some of the changes to allow smoother foreign investment. M&A activity in banking

and financial services in the first half was one of the most important sectors for Asia, according to Flemings, the US investment bank. With the Thai government this month announcing ing system, strategic investments in the sector are likely to rise. Among deals in the pipe-

line in Asia is Kia Motors. the defunct Korean group in which Ford, the US carmaker, has indicated interest. Private equity funds for financial investors looking for longer-term returns in non-listed companies are also being set up. "Based on hand, we expect the second half to be as busy as the first," says David Lowes, director of investment bank-

Bankers note that the The urgent need to raise huge competition in Latin America, especially for pri-Asian governments to try to vatisation deals, is leading to push through legislative razor-thin margins for the corporate financiers. Asian transactions may be smaller but some are more lucrative

The flow of cross-border deals is likely to continue for the next two to three years. says Mark Pawley of Credit Suisse First Boston's global emerging markets group "Although people are treadplans to restructure its bank- ing carefully, there is a lot of value to be had."

Indonesia car stake

By Michiyo Makamoto in Tokyo Japanese carmakers are

considering raising their

stakes in their Indonesian

manufacturing companies in a bid to support subsidiaries through the market setback. Toyota, Daihatsu and Isuzu said they were considering ways to support their Indonesian joint venture companies, which have seen sales drop due to the domes tic downturn. The decision to consider additional support for their Indonesian plants comes at the request of Astra International, the conglomerate which is a partner to all three Japanese carmakers in their Indone-

Toyota said it was considering a number of ways to support Toyota Astra Motor, in which it has a 49 per cent stake. However, the com-pany did not confirm whether it was considering increasing its stake in the company or whether it was approached by Astra Inter-national, which owns 51 per cent of the joint venture, to consider an increase in its

Astra has asked both Daihatsu and Isuzu to increase their stake in their respective joint ventures. The two Japanese companies confirmed that an increase, among other measures, was under consideration

The Indonesian vehicle market has fallen sharply in the face of the country's currency crisis. Toyota said sales had fallen by 66 per cent to 15,800 units in the first six months of the year. The company has cut back production from two shifts

Daihatsu, which owns a 20 per cent stake in PT Daihatsu Astra, saw sales plunge to 300 units in July this year. Last year it produced 36,000 units. Astra owns 75 per cent of the joint venture, while Nichtmen, a Japanese trading company has 5 per cent.

Isuzu, meanwhile, suffered a similarly sharp decline, with production down to just 100 units in July

inquiry into death inights leader

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US durable goods orders move ahead

By Adrian Michaels in Washington

on on the bomb to and mured 27 & for manufactured durable goods rose at their fastest rate for eight months in July, the US Commerce Department announced yesterday. However while orders were driven by strong demand for a turnround in Asia and electrical machinery and aircraft, the underlying trend still pointed to a slowdown

in manufacturing activity. Total orders increased \$4.4bn from the previous month, or 24 per cent, to \$187.5bm, following a 0.2 per cent increase in June. But orders for non-defence capital goods excluding aircraft, which give a clearer picture of manufacturing industry, were down 1.5 per cent.

The rise in total orders was largely explained by a large jump in the electronic and other electrical equipment sectors, up 12 per cent \$33.8bn. Industrial machinery and equipment, sluggish, faced with declin-

up for the second consecu-ing exports and a still exces tive month, increased 2 per cent to \$37.5bn after a 1.7 per cent increase in June.

Bruce Steinberg, chief economist at Merrill Lynch, said the electronic equipment figures had been particularly volatile in recent months. "There is no sign of domestic activity is slowing Most economists had been

expecting a fall in the month, due to the effects of the long strike at General Motors. "The US manufacturing sector is still chug-ging along at a high level," Debbie Johnson, senior economist at Deutsche Bank Securities in New York, said, "but overall it is slowing." Merrill Lynch said that looking shead, it expected car orders to surge in August reflecting the return to work at GM. "Aside from

that, however, we expect the

industrial sector to remain

sive level of inventories." However, also pointing to an underlying slowdown were the figures for shipments of durable goods, which fell 0.2 per cent to \$186.2bn, their third decline in four months.

In the year so far ship ments are now up 5.2 per cent over the same period a year ago. Unfilled orders for durable

goods rose for the first time since April, up 0.3 per cent to \$506.2hn, following a 0.7 per cent drop in June. A more optimistic view was expressed by Ram Bha-gavatula, chief financial economist at Citicorp Secu-

He said that the revival of financing in much of Asia may be behind the demand for US durable goods, adding that "the second half of the year would actually look better in terms of orders, growth, production and

memo

made

public

An Intel internal memo

described alleged press

eniconductor manufacturer

The newspaper quoted

Gates Microsoft chairman

and chief executive, and

subpoena ~ several months

treat matters of this nature

further," the company said. A Justice Department

official said the apparent

from here. We don't know

where it may have come

filed a request for summary judgment, asking the court

to throw out all or part of

case. A hearing on this

described in the intel memory was "commonplace".

closely to ensure that our

for the benefit of customers," Microsoft said.

"In fact, such discussions

are necessary to ensure that PCs become easier to use."

now acting as an adviser to

Microsoft, said it was "very

troubling" to see the intel

prohibits the release of

evidence and moreover. evidence in the Microsoft

antitrust case is covered by

a protective court order, Mr

The Department of Justice had historically been 'very

rument made public.

held on September 8. Microsoft said the meeting

during trial.

document

By Louise Kehoe in San Francisco

Leaked **NEWS-DIGEST** Intel

MARTIN LUTHER KING JR

New inquiry into death of civil rights leader

The US Justice Department announced yesterday it would reopen its investigation into the death of Martin Luther King Jr., the civil rights leader assassinated in April 1968. Janet Reno, attorney-general, said a limited review of the matter was justified by new evidence suggesting

King's death may have been the result of a conspiracy. Previous federal investigations found that King was shot by James Earl Ray, a racist drifter, who was convicted of the murder and died in prison this year.

Ms Reno's decision follows a request by Coretta Scott King, King's widow, and his children, who have been ssing for the reopening of the case.

But the planned review will be more limited than the broad national commission the King family has been pushing for. The King family has long expressed doubts about the official version of King's murder. But in 1977-78, a separate investigation by a special committee of the House of Representatives also concluded that Ray had

Although Ray pleaded guilty to King's assessination in 1969, he afterwards recented his confe Mark Suzman, Washington

EL SALVADOR ELECTION

Silva withdraws from contest

unexpected twist after one of the opposition's leading candidates withdrew from the race for his party's nomination. Hector Silva had been expected to contest the nomination this weekend at a special convention of the Farabundi Marti Front for National Liberation (FMLN), the former leftwing guerrilla movement that is now El Saivador's largest opposition party. But Mr Silva, the mayor of the capital San Salvador, said on Tuesday he was polling out of the race to reduce the risk of splits within the party.

When the FMLN convened this month to choose a candidate, Mr Silva and another candidate, Victoria de Avilés, received virtually the same number of votes, without either winning an outright majority. Mrs de Avilés, El Salvador's former attorney for the defence of human rights, seems set to win the nomination to contest the presidential election next March, James Wilson, Panema

VENEZUELA MARKETS

Devaluation fears ease

Government assurances of financial solvency eased fears of an immediate devaluation of Venezuela's currency yes-terday, but they proved insufficient to prevent nervousness in the stock exchange and the foreign currency market. The Caracas IBC index fell 3.5 per cent to 3,157 in early trading, having recovered on Monday and Tuesday part of

the losses made last week amid devaluation fears. Some financial institutions had to liquidate their positions in the stock exchange. The overnight interbank lending rate lumped to 150 per cent from Monday to Tuesday. after the central bank raised interest rates by more than 10 per cent on Monday. Maritza Izaguirre, finance minister, on Tuesday said Venezuela had sufficient resources to meet its debt obligations. Raymond Colitt, Caracas

CANCER TREATMENT

Snake venom offers hope

US scientists have used copperhead snake venom to treat breast cancer in mice, according to a report presented yesterday at the national meeting of the American Chemi-

Mice given a distilled version of the venom experienced a 60-70 per cent reduction in the growth of breast turnours, and a 90 per cent reduction in metastasis - the spreading of the cells to other parts of the body. "We feel this is very interesting for the treatment of other cancers as well," said Dr Francis Markland, professor at the University of Southern California School of Medicine and

A protein in copperhead venom prevents tumour cells from sticking to other cells and starves the turnour by preventing new blood vessels forming.

The drug's effectiveness in limiting metastasis is vital since most breast cancer patients die because the cancer spreads to other parts. Once metastasis occurs, only one in five women will survive. If the cancer can be contained. physicians have a better chance of eliminating it through traditional methods such as surgery and chemotherapy.

The snake venom protein will have to be synthetically reproduced before moving to human trials. Victoria Griffith, Boston

On the web today Brazil's political campaign casts a shadow over

Treading the thin line between US domestic economic stability and a global financial disaster

William McDonough, NY Fed chief, talks to Gerard Baker on the importance of a 'soundly functioning American economy'

To its critics the US Federal Reserve is steering a perilously thin line these days between domestic economic stability and

global financial disaster. Russia, Japan and other Asian countries are imploding in the most severe global downturn since the 1970s, but the US economy has been the one obvious ray of hope - continuing to grow at a blistering pace in the first

half of the year. Yet while the rest of the world desperately wants that sece of growth to continue, Alan Greenspan, the Fed chairman, threatened last nonth that The central bank might have to raise interest rates to ward off the risk of nflation, a move that would almost certainly exacerbate the global crisis.

How does the Fed square the circle? According to Wilham McDonough, the president of the central bank's New York branch, and one of the most influential members of its policymaking open market committee, there is no real conflict.

As long as it is pursu its objective of sustainable economic growth in the US, it is looking after the interests of the whole world too, he said in an interview.

"A soundly functioning American economy is so important to the world that what is good monetary pol-icy for us is good monetary

But Mr McDonough acknowledged that the world was a dangerous place these days. He said the Asian crisis of the last year and the recent turmoil in Russia demonstrated that in mod-ern global capital markets, problems could be transmitted very quickly from one part of the world to another. And he accepted that the

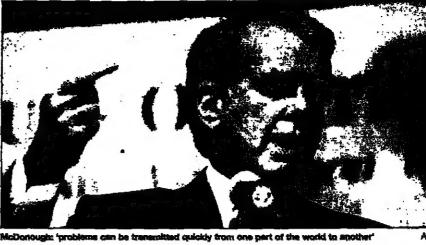
fragility of the world was an important factor in Fed decision-making. But ultimately Fed policymakers must decide on the basis of the US financial Armageddon is around the corner? The key, most econ

believe, will be whether the economy now slows by enough to keep the central bank's concerns about inflation under control, but not by so much that it will make matters worse for the rest of the world.

Mr McDonough seemed cautiously sanguine. He warned that the Fed still needed to be alert to the inflationary dangers from the extraordinary tight

But, he added: "That risk has existed for the last couple of years... and inflation has stayed under remarkably good control, pertially because of improvements in productivity and partially because of a series of positive supply shocks" such as lower energy prices.

And the immediate out- most important, Mr McDonlook was uncertain, he ough sounded more upbeat



especially on services, was still robust: he was sceptical of the notion that the fall in stock prices in the last few months would curb consumption or investment. That fall was "not likely to have a significant negative effect" on the economy.

But there were a number of factors that would damp growth in the rest of the year, he said. The Asian crisis, of course, would continue to have a "very considerable" effect. But one other, overlooked, factor was also restraining demand. The rapidly emerging budget surplus - which official estimates now said could be as high as \$60bn, nearly 1 per cent of GDP, up from a small deficit last year - was, he noted, generating

a drag on the economy. Furthermore, and perhaps lying US economic performance had improved radically in the last few years in a way that might have increased its long-term

potential rate of growth. Productivity Improvements in the last few years driven by high-tech investment were clearly showing through, he believed.

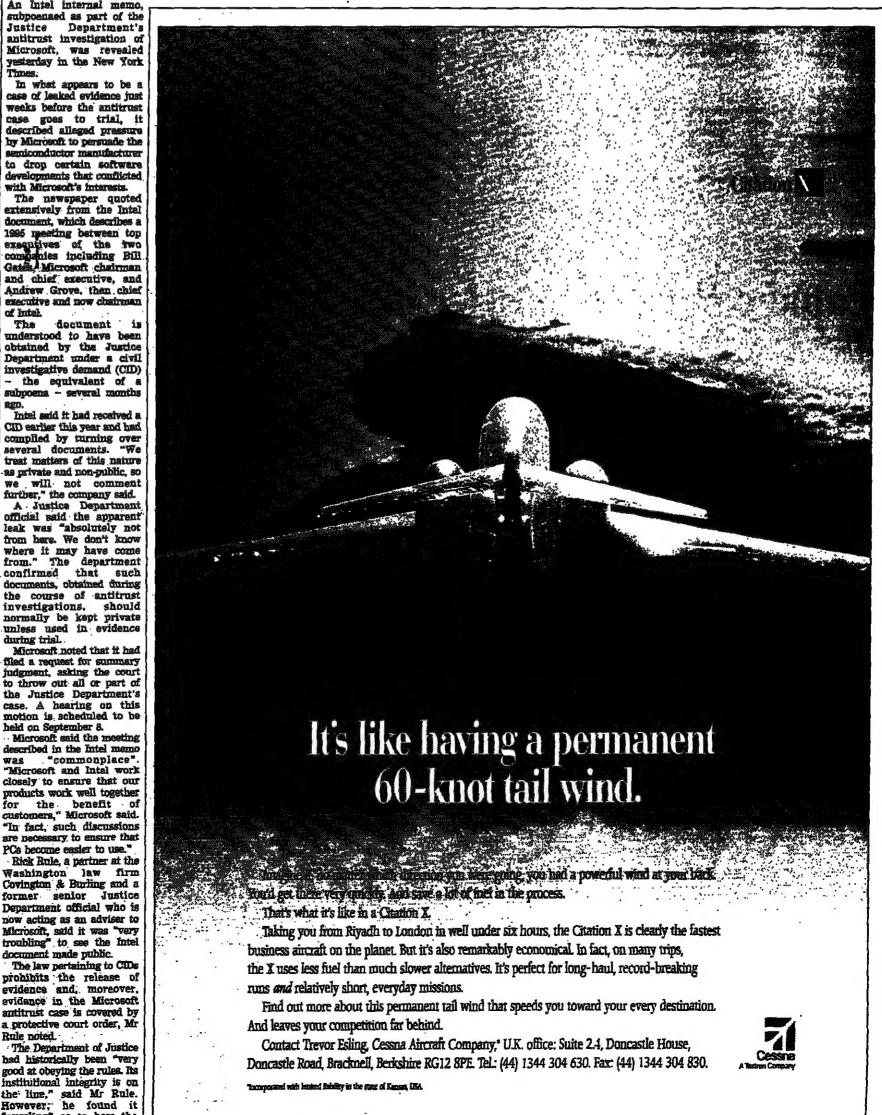
"I have been very reluctant to participate in the so-called 'new paradigm' school... but I think even a sceptic like me, after almost three years of improved productivity, has to begin to say that the likelihood that there really is something quite positive going on becomes greater with each passing quarter." This of course, is not the same as saying inflation is dead, and the New York Fed president warned that the goal of price stability remained critical.

One point he was anxious to make about the benefits

not often heard from central bunkers.

Economic stability smooth, continuous growth, rather than boom-and-bust was especially desirable from a social as well as an economic perspective, because it lifted living standards of the very poorest in ment low, restrained inflation - thereby raising real wages - and limited dramatic dislocations associated with recessions, which always hit the poorest first

and hardest. "We do have a structural problem in that income distribution is rather strongly skewed in the direction of the well-educated...the bene fit of sustained economic growth is to bring additional people into the labour force and give them a capability of a more full participation in



country's troubled markets: financial problems must wait until after October's election http://www.ft.com/americas

good at obeying the rules. Its

Rule noted.

institutional integrity is on the line," said Mr Rule. However, he found it "puzzling" as to how the Intel document could have

backing

US strike

on Sudan

The UK Foreign Office is

increasingly concerned that

the US last week bombed an

innocent target when

factory in Sudan. Senior offi-

cials believe Tony Blair,

prime minister, was too hasty in backing President

Bill Clinton's strike on the

"A country like the United

States, when its citizens are

under attack in this way and

when they are at risk, must

have the right to defend

itself and we support our allies in this cause," Mr

A Foreign Office official said Mr Blair's support for the US was "knee-jerk and a bit-obtuse". He said the UK

had not obtained any inde-

pendent evidence that the

factory had a military pur-

pose or was linked to the

international terrorist.

Friends of Robin Cook. for-

eign secretary, said he was "uncomfortable" with the

prime minister's position.

Many of us were mortified

when the prime minister

rushed to support Clinton,"

Mr Cook has been cons

uous in making only limited

and low-key comments on

the affair. In a recent inter-

view he said: "We are of

course confident that Amer-

ica would not have chosen

its targets without very clear

evidence that they were cor-

rect targets."
The White House has said

it has proof the plant was

involved in the production of

chemical weapons. However,

a Foreign Office spokesman conceded the UK had taken

If the House of Commons

was sitting, Mr Blair would

face critical questioning

from backbench members of

his own party. Andrew

Mackinlay, a leftwing Labour member of the cross-

party Commons foreign

affairs committee, said the US strike on Sudan "appears

to run counter to the government's ethical foreign pol-

this on trust.

Osama bin Laden

said a minister.

plant in Khartoum.

Blair said.

By Robert Peston.

Political Editor

Asia crisis widens trade deficit

By Christopher Adams and Richard Adams

The UK's trade deficit with the rest of the world has continued to widen, as official figures yesterday showed exporters were suffering stones in June. Excluding oil from Asia's economic crisis.

The country's visible trade deficit in the first half of this year was the worst since 1990, the Office for National Statistics (ONS) said. The deficit in goods and services between January and June was £5.7bn (\$9.4bn) - more than double the £2.6bn deficit in the second half of last

in June alone the seasonal-

ly-adjusted deficit was showed a deficit of £900m in £192m in June, traditionally 2 per cent fall in car imports £1.2bn shortfall. But May's figure was distorted by oneoff aircraft imports, and higher exports of precious exports and erratic items, imports of goods during June outstripped exports by £1.8bn, against £1.7bn in

Most of the deterioration in the trade figures has come from falling exports of goods to markets outside the European Union, and in lower income from oil sales. More recent figures for trade in goods with non-EU countries

2800m, which was an July. This was a slight a poor month. But the surimprovement on May's improvement from £1bn defi- plus in the second quarter cit in June, but underlying export volumes were down by 6 per cent in the three months to July.

In nominal terms, exports to Malsysia, Hong Kong. with evidence that some Thailand and South Korea have been cutting prices to were down by 35 per cent in the second quarter

"The prospects for export-ers are bleak," said Richard lley of ABN Amro. "The loss of competitiveness they have suffered [from the stronger pound] isn't going to be relieved anickly." The balance of trade in oil

produced a surplus of just

with £920m last year. Exporters have been been helped by economic recovery in Germany and France, maintain their overseas mar-

was just 2724m, compared

BRITAIN

ket share. Exports to BU countries during the second quarter fell by only 0.8 per cent from a year before, against the 8.1 per cent decline with the rest of the world. Exports to the EU have been helped by the 8.5 per cent increase in sales of cars overseas, and a

Looking for a hit

to the UK. Analysts expected the current account - which includes "invisibles" such as dividend income and profits repairiated from overseas to slide into deep deficit this year, after being in surplus last year.

"Manufacturers are taking a lot of the strain of sterling on export profit margins rather than on volumes, and the deterioration in the trade position so far has been surprisingly modest," said Adam Cole of HSBC. "But there may be worse to come."

Film sector's hope of success hinges on gangland comedy

Cinema investment continues to fall, with the industry relying on a blockbuster to turn around its fortunes, says Alice Rawsthorn

thinks could become blockbusters, and the insiders' favourite for 1998 is Lock, Stock & Two Smoking Barrels, which makes its UK cinema debut on Friday.

The film is a comedy drama set in London's gangland, and is the brainchild of writer and director Guy Ritchie, 29, and producer Matthew Vaughn, 26. Four young men fall into serious debt after a card game, discover a plot to rob a drug dealer and decide to steal from the robbers. The part of a menacing debt collector is played by Vinnie Jones, the soccer player and coach of the Queens Park Rangers US costs prompted Hollyteam in London.

The industry desperately needs a box office success, having hit a dry spell since last year's triumph when Bean and The Full Monty each took more than \$230m worldwide.

Investment in UK film production seems set to fall for a second successive year. and the UK risks losing one of its prime sources of production finance following the sale of PolyGram Filmed Entertainment (PFE), which distributing Lock, Stock. The downturn in the persuaded first the Conser-

very year, the film industry's fortunes comes at vative and then the Labour industry chooses a cou-ple of British films it ernment, Labour has vowed to sustain the recent British film revival as a big component of stimulating the creative economy. But it faces a struggle this year to secure financial support for UK filmmakers and backing from Hollywood studies for its wide-ranging review of

film policy. Historically, the UK film industry has been a boomand-bust sector; but when it emerged from the doldrums in the mid 1990s, there were sound reasons to hope this revival would prove more durable than others.

First, the combination of the weak pound and scaring wood studios to shoot more blockbusters in the UK. Second, PolyGram prom-

ised to become the worldclass film producer and distributor that the UK sorely needed. Since 1991, the Dutch group has ploughed \$1.2bn of the profits from its ing a film division, and the UK has received a large tranche of that investment. Third, the success of British-made pictures, notably Trainsporting and Four

Weddings And A Funeral,

both backed by PolyGram,

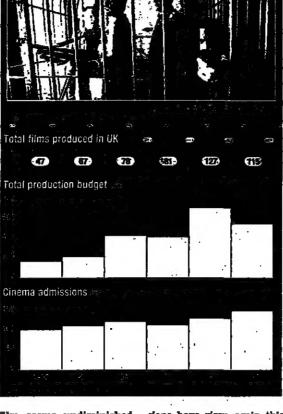
worth allocating National Lottery money to film. Young producers have since found it easier to raise finance, and Labour followed up the lottery initiative with other supportive measures, including long-sought tax Finally, the construction of multiplexes helped British

government that it was

films to secure distribution. and encouraged more people to go to the cinema. Admissions soared from 102m in 1992 to 151m last year. But this year, the strong

pound has made the UK seem less attractive to Hollywood, on cost grounds at least. The British Film Commission expects overall US investment to fall from 1997's level Moreover, PolyGram's film

business has been put up for sale following Seagram's \$10.4bn bid for its parent company. A dozen bidders have emerged, including EMI and Carlton, the UK media groups. But there is no guarantee that the new owner will sustain PFE's commitment to UK production. EMI has long been seen as a takeover target, and Carlton closed the old Rank film distribution arm shortly after buying it.



film seems undiminished, but Janet Anderson, the newly appointed film minissuading the industry to contribute financially to the government's training and promotional plans. Otherwise, Labour may have to revise its film policy review. facing the UK film industry Labour's enthusiasm for is the dearth of hits. Admis-

sions have risen again this year, and more multiplexes have opened. But the chief beneficiaries have been US blockbusters such as Titonic, Godzilla and Armageddon.

If the industry is to return to growth, it must regenerate investor confidence by proving that British films can still score at the box office. Right now, Lock, Stock looks like its best shot.

icy". He called on the government to publish whatever evidence existed confirming the terrorist threat posed by the pharmaceutical plant. Mr Blair has nurtured a close relationship with Mr Clinton, next week due to visit Omagh in Northern Ireland, site of a recent

> in which 28 people were killed. They are jointly trying to develop a so-called "third way" set of policies for the centre-left. However, relations between the US administra-

bomb attack by the Real IRA

tion and the Foreign Office are said to be strained. "The Americans appear to mistrust Robin," said an MP.

Cable company to offer internet links

NTL, the UK cable company, yesterday announced that it home banking and shopping services to form an interactive element on the digital television service it will offer from next year.

NTL is to invest £25m (\$41m) over the next two years in setting up an inter- company, announced last net-based interactive service.

applications already developed by companies.

In contrast, British Interactive Broadcasting, the service that will form part of British Sky Broadcasting's 140-channel digital television package, requires internet applications to be converted into different software.

CWC, the largest UK cable

so they can be viewed more easily on a television screen.

Andrew Crossley, an interactive services manager for NTL, said the company had chosen an internet-based service because "there are bil-lions of pages of information out there at the moment, so why would you rewrite them

NTL said it had not yet week that it will offer reached firm agreement with intermet-based services. NTL any retailers, but expected to selling over the internet,

ing trend among cable televi- will adapt services offered by start offering a service with sion groups to adapt internet retailers by simplifying them at least 15 companies by March next year. Eventually more than 100 companies could be involved.

Cable companies believe they have an advantage in offering interactive services because customers will not need to use telephone lines to make their orders. · HMV, one of the UK's largest music and video

retailers, will today unveil details of its plans to start

Alice Rawsthorn writes. The launch of HMV's internet store, which is scheduled to go online in the next few days, comes when developments in the UK online entertainment market are accelerating rapidly.
Towar Records (UK), one

of HMV's rivals, intends to introduce an online store next month, as do Creation, Oasis's record label, and a joint venture between Capital Radio and the Telstar music group.

Blair 'too NEWS DIGEST DEATH SENTENCES ON CIVILIANS hasty' in

Sierra Leone president is urged to show clemency The government faced fresh embarrassment over its close

relationship with the administration in Sierra Leone yesterday after a court in the African country sentenced 16 civilians, including five journalists, to death by hanging. Tony Lloyd, a UK Foreign Office minister, appealed to President Ahmed Tejan Kabbah, the democratically elected

leader of the country, to show clemency in the cas President Kabbah was restored to power in a military coup in February. There were subsequently allegations that the UK government had approved a British company's sale of weapons to President Kabbah despite a UN arms

Tony Blair, the prime minister, keen to play down the "arms to Africa" affair, described it in May as a "hoo-hah". Defending officials accused of approving the sale of weapons, he said: "Let's not forget that both the UN and the UK were trying to help the democratically elected regime to restore its position from an illegal military coup. It was a democratically elected regime that people were trying to help. They were quite right in trying to do it."

The death sentences were pronounced on 16 people involved in the coup which temporarily deposed President Kabbah last year. Andrew Parker, London

LLOYD'S INSURANCE MARKET

Broker expelled for dishonesty

Lloyd's yesterday expelled Michael James Cowle, a broker, for what it described as "thoroughly dishonest behavlour". Mr Cowie, a former managing director of the aviation division at Bain Clarkson Ltd (BCL) and Bain Hogg International (BHIL), was fined £80,000 (\$132,000) with £17,578 costs. Lloyd's also permanently suspended his right to transact, be concerned with or interested in, any class of insurance at Lloyd's. Mr Cowie did not serve a defence.
Lloyd's alleged that in 1987 Mr Jacques Paté, managing director of Aviatrance, asked Mr Cowie to set up a third-

party commission account as a condition of Aviafrance placing more of its business with BCL. Between 1989 and 1996 Mr Cowie authorised money to be paid into this account and then the transfer of sums totalling \$216,000 and \$224,000 to the private bank accounts of Mr Paté. In return Mr Cowie received from Mr Paté, from the third party account, 267,000 and \$80,000 without the know-iedge of Aviatrance or BCL/BHIL. Mr Cowle was dismiss from BHIL in 1996. He has since paid back the amounts he received with interest.

David Gittings, for Lloyd's, said: "Clients of a Lloyd's broker are entitled to expect the highest standards of integrity and fair dealings." Jim Kelly, London

CROSS-CHANNEL SMUGGLING

\$5bn a year lost, say retailers

independent retailers estimate they are losing 93bn (\$5bn) a year in sales because of smuggling of alcohol and tobacco to the UK by sea from mainland Europe, mainly across the channel between England and France. A survey of more than 500 small shops published in today's Independent Retail News found the loss of business attributed to bootlegging averaged £67,236 a year, 16.6 per cent of annual sales.

Just under half the lost business is accounted for by alcoholic drinks and tobacco products. The rest is said other products which Britain's 47,000 small shops sell to customers who come in to buy alcohol and tobacco.

The biggest losses are recorded in north-east England, where organised gangs have cut tobacco sales from shops by a third in the past year. The main outlets for smuggled goods are sales from vans, pubs and clubs and car-boot sales, the survey found. The government estimates that it lost more than £800m in duty on bootleg alcohol and tobacco last year. Last month it announced plans to spend an extra £35m over the next three years to curb cross-channel smuggling. John Willman, London

HAULAGE BLOCKADES

Truckers threaten legal action

British truckers are threatening legal action against their counterparts in mainland Europe, if they block roads during a day of action on September 8. The UK Road Haulage Association said it was prepared to take transport unions and European Union member states to court if the blockade went ahead.

The RHA claims the disruption, which follows similar action by French truckers over the last two years, breaches EU laws on the free movement of goods. The association is also asking Nell Kinnock, EU transport commissioner, to press ahead with plans for a network of stra-tegic routes which member states should keep open dur-ing such disputes. George Parker, London

PRIVATISED RAILWAYS

Complaints increase by 103%

The UK's privatised rail companies have failed to deliver on their promise of better services, according to the annual report of the Central Rail Users' Consultative Com-

mittee, released yesterday.

"Some passengers are winning, but others have seen no real improvement or, worse still, have experienced a detereal improvement or, worse suil, nave experienced a deter-noration, especially in terms of service quality," the report said. Passenger complaints increased by 103 per cent to 19,792 last year, with reliability and punctuality the most frequent causes. The Association of Train Operating Companies said the railway industry's problems were the result of "years of under-investment". Jonathan Ford, London

Businessman to spend millions in anti-Emu drive

By Lists Halligen, Political Correspon

Paul Sykes, the Eurosceptic businessnum, is to launch a multi-milion pound cam-BIREN against British membership of the single Euro-He has pledged to spend

"whatever it takes" to convince the public to resist the move. A referendum on the dum in the next parliament cure is expected in 2001 or Mr Sykes, who gave finan-

ctal assistance to anti-Emu Conservative candidates in last year's general election campaign, said he would launch a nationwide publicity drive to "dwarf the procuro propaganda coming from Rrussels". It will be financed from Mr

Sykes' estimated £250m (\$410m) fortune and will began on January 1 1999 -Emu's launch date for "first wave" member countries. It will use newspapers, posters and the internet.

"I'm going to do everything I can to stop this and will raise helifire to get the message across," he said. "I owe it to the British people, as there's no point being a rich man if you've lost your nation.'

Mr Sykes, a former Conservative election candidate.

said he was motivated by polls he commissioned of the public would like more information on Emu. Details of his campaign, to run alongside the Business for Sterling group led by Lord Mursh, will be revealed next month.

With the Labour govern ment committed to a referen - should ministers decide to join - Mr Sykes' campaign could take four years and cost millions of pounds. Mr Sykes disclosed he will

not finance the attempt by two former Conservative MPs to stand as independent "anti-federalists" in next year's elections to the European parliament. He said the faction proposed by Nicholas Budgen and Tony Marlow would "amount only to a protest vote" and that he did not want to become involved in party politics,

Government officials have suggested there may need to be limits on campaign spending ahead of the expected referendum. Responding to the possibility of spending tional representation in limits on individuals, Mr Sykes said: "If they limit what one person can spend, we will involve lots of individuals; the message will get

IRA prisoners 'to be freed soon'

The UK government is expected to approve the st offences within the next two weeks while stepping up its crackdown on paramilitaries opposed to the Northern Ireland peace accord, according to UK officials.

Northern Ireland's sentence review commission. which is overseeing the release of some 400 prisoners eligible for release over the

next two years under the Good Friday agreement, is focusing on an initial batch These include members of

release of a small number of the Irish Republican Army prisoners convicted of terror- and anti-republican organisations such as the Ulster Volunteer Force and Ulster-Defence Association/Ulster Freedom Fighters which have maintained an extended ceasefire.

"It looks like it will be the middle of the week after said a Northern Ireland Office official last night, referring to the

the twin-track approach were revealed as Tony Blair the prime minister, and Bertie Ahern, his Irish counterpart, smerged from two hours of talks in the republic wish to see further progress in the implementation of the Good Friday peace agree-

planned release. Details of

The UK prime minister's official spokesman said the Omagh bombing and the planned anti-terror legislation to deal with paramilitary groups opposed to the agreement, could "oddly" help the drive for peace. There is the right atmosphere to move this thing on," he added, referring to the recall of parliament next week to approve the legisla-

ern Ireland by Bill Clinton,

the US president

Mr Blair, stressing that the UK and Irish governments were "marching in step together" to tackle paramilitary organisations opposed to the peace accord,

Ennobled pro-European may soften vote reform

Hopes of a fully proportional voting system for elections to the House of Commons look set to be dashed this year by Lord Jenkins, chairman of the Electoral Reform

Lord Jenkins is better known as Roy Jenkins, a Although the system has the Labour cabinet minister in the 1960s, president of the European Commission in the 1970s and now a senior member of the pro-European Liberal Democrat party, which is keen to secure proporthe UK.

alternative voting systems.

to be published in October,

is expected to propose only

modest reforms capable of redistributed.

winning the support-of Tony Blair, the prime minister, and the majority of his Some senior Liberal Demo-

crats believe that Lord Jenkins could recommend a system based on the so-called supplementary vote, which would be anathema to many of the party's supporters. advantage of simplicity, its critics say it is not proportional and that it would discriminate against small parties such as the Greens.

ence candidates. If no candi-

Lord Jenkins's report on all except the top two are

date has over half the vote,

eliminated. The second

choice votes of the elimi-

nated candidates are then

Under SV. voters mark their first and second prefer-



Lord Jenkins: set on "broadly proportional" system

ing system that is "broadly John Prescott, the deputy proportional" and that will win the crucial backing of Mr Blair. Cabinet ministers have all signalled their oppo-

Tony Andrews However, Lord Jenkins is including Gordon Brown, the determined to propose a vot- chancellor of the exchequer.

prime minister, and Jack

Straw, the home secretary,

compromise option of SV could win the day, because it between an MP and his or her constituency, limits the power of fringe parties and will be easy for voters to understand

an opponent of pure systems of proportional representation, chose SV as his preferred method for electing the new executive mayor of London, and for future mayoral elections in other UK

"We are starting to hear strong rumblings that the commission is looking very one MP close to Paddy Ashdown, leader of the Liberal

sition to radical reform. The to attempt to make the results of any election more proportional by adding a maintains the current link "top-up" of MPs elected from party lists, according to the amount of support in the country. This arrangement may be delayed until after the next national elections. Significantly, Mr Prescott,

Such a system would fall far short of the Liberal Democrats' hopes of a system based on the more proportional single transferable vote, which would dramatically increase the party's representation at in the House of Commons

However, Mr Ashdown's aides admit that they are hardly in a position to dictate terms to the prime minister and that they would be bound to support whatever system was recommended by Lord Jenkins

STORY PROPERTY.

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TWA BLAST

STATE OF THE PROPERTY OF STREET, STREE

Nigel Andrews on a cinematic debut with flashes of brilliance

Barrels. For the most breezily energetic UK movie in years director Guy Ritchie's first feafeat of advancing cinema not one inch. This giddy scion of The Long Good Friday, The Kroys and Performance (with bits of transatlantic ancestors like GoodFellos and Pulp Fiction) has the filmmaker's provenance stamped all over it. Ritchie came from pop promos and commercials, those schools for style-without-substance and free-range plagiarism. and thifher he may return unless he can bring contour and chiaroscure to flashy brilliance.

For there is brilliance here. Introductory scenes sketch the dozen main characters as if with a light-pencil: from the quartet of hoodlum youngsters who have come under the gun to pay off a gambling debt, via the bullet-domed hatchet-faced crime bosses, to the effete foursome (led by a funny Steven Mackintosh) who supply cannabis to the nongentry from their fortified inner city barn. Footballer-turned-actor Vinnie Jones also wanders through, wearing the look of a man you wouldn't want to meet in a darkened penalty area.

The groups are cunningly brought together for a climactic bloodbath, concluded when one AWOL character comes home expecting a quiet payday and finds instead Hamlet Act Five. "No money. No weed," he muses; "it's all been replaced by a pile of corpses."

The audience laughs, but by this stage in the movie - and not just funny but horrifying, ford's eponymous horse whismore broadly in movie history - Scorsese encourages us to laugh.

one thing, the "No ho" response ... Ritchie, though, has caught the to carnage has been extensively Tarantino wave, without quite squeezed by Pulp Piction and its being Tarantino. Much more of posimodern peers. For another, this post-Pulp affectlessness The British gangster movie takes Ritchie gives us his own funniest about mayhem and we shall all a quantum leap sideways with moments early on. Here the diabe found prone one morning with Lock, Stock and Two Smoking logue is all cockney slang hilarity-induced lockiew. A note ("You've got Liberia's deficit in self-planed to our chests will say, your skyrocket") or pell-mell putdowns ("I didn't ask for a facking we wanted to stop, for just a ture performs the remarkable rain forest" says someone given a moment, and weep. pineapple-adorned drink in a "Samoan" bar). And as extra Strip a bestselling novel to its perks we get the burglar who won't put a stocking on head because he has done his hair; the Horse Whisperer sold so many gangsters who bestow only a

> LOCK, STOCK AND TWO SMOKING BARRELS **Guy Ritchie**

THE HORSE WHISPERER Robert Redford

THE SPANISH PRISONER

THE PROPOSITION Lesli Linka Glatter

moment's curiosity on the burning man fleeing the pub they're about to enter, or the good running gag involving a glass of juice and a fragile glass table. All these are filmed with an

elastic camera in a vivid array of shots. Watching high surface invention, though, can be an exercise in deep frustration. We keep wanting the film to be more than a joke, more than a bright riff on gangland precursors, but it never is. GoodPellas, TVscreened by cruel coincidence the same day as the press show, is daughter, finally between Red-

"We died laughing, even though

basics and you find a fairy tale or fable. Nicholas Evans's novel The copies that the eyes of statisticsgazers glazed over. Was it six million, 600 million, a zillion? We just know that it used to be spread over every airport bookshop like wall-to-wall carpeting. What is it actually, though, this

tale of a horse wounded when hit by a truck, the girl rider shoulta neously crippled, and the English-born magazine-editing mother who whisks them off from Manhattan to Montana to breathe fresh air and the wisdom of an equine faith-healer? Out there under God's skies the only deadline is sunset and the only space-limitation the icy mountains that frame the impondera-

It is, of course, the town mouse/ country mouse table gone mystical and given, now, the Robert Redford treatment, The film is long, slow, gorgeous and ever so slightly daft. like a twopage plot idea blown to epic size certitude (his). Robert Richardwith hot air.

together by glutinous scenes of bonding: between man (and woman) and nature, between girl and animal, between mother and perer - a kind of Mariborough son plays the daughter better



and Kristin Scott Thomas's whole movie, deserves. nption-seeking urbanite, a Tina Brown flung soul-first from her New Yorker.

The film is horribly addictive, even so. The press show began 80 minutes late, but critics were soon as quiet as mice as they watched these other mice clash at the interface between metropolitan angst (hers) and pastoral As a fable-transformer Redford tana look like Paradise, USA. is not afraid to pirt the soppy into And the actors hold their own Aesopian. The film is held with the giant scenery and quasigiant themes. Scott Thomas has the presence and incisiveness for the heroine. Redford was born to play this role and to direct himself in it. And the affecting, openfaced newcomer Scarlett Johans-

David Mamet's The Spanish Prisoner is a three-card trick in drift - too many travel-brochure which we get dizzy panning our heads to follow the play. Who is behind the elaborate con game being played on Campbell Scott, the inventor of a secret "process'

- Mamet keeps it vague but makes it stealable like all good businessman Ben Gazzara's company? Is the schemer Steve Martin? Is it the company's all-smiling girl Friday Rebecca Pidgeon (aka Mrs Mamet)? Is it the woman presenting herself as an

FBI acent (Felicity Huffman)? And so on. Like the playwrightfilmmaker's first and best movie House Of Games, this is a maze to catch mice in (rodent-themed week) and we suspect that we are sperm count, so he pays over- girl.

Cowboy gone transcendental - than the part, or indeed the the mice. Unlike House Of Games, awed young company employees though, it never quite makes us to spend a night with the missus care. There is too much location beaches and aurport lounges - for us to feel interestingly trapped. And there is too much lessurely epigrammatic dialogue for us to believe that anyone on screen dences, although there are feels all that trapped. How worried can you be if you have time McGuffins - that will enrich to say things like: "Worry is the interest paid in advance on a

debt that never becomes due." Laughter is the dividend paid out in arrears to serious movie scenes that collapse in a heap, in The Proposition Father Kenneth tions on Madeleine Stowe after she has failed to get pregnant by other means. Her millionaire busband William Hurt has a low

It all goes horribly wrong, and that includes the movie. An irreverent hilarity gripped the press show audience as the plot stomped on through storms, deaths, miscarriages and coincimoments when the film reaches that rare apogee: bad enough to be good.

Chop-socky fans will enjoy Mr Nice Guy (15. Samo Hung) in which Hong Kong martial arts star Jackie Chan takes 88 minutes to clean up Australia, Fans of TV's Frasier will be less happy Branagh forces unpriestly atten- to see star Kelsey Grammer stumble through The Real Howard Spit: (PG, Vadim Jean), a "comedy" about a writer, an unfunny cow and an icky little

EDINBURGH ROCK

Artists in a happy state of Flux

In a year with little or no given over to Scottish bands. great excitement arising ranging from current frontfrom either the International Festival or the main areas of the Fringe, the most consistently intriguing series of fronted by the long underevents so far has been the rock-related strand known e Fire to nately in the Queen's Hall (Fringe venue 72) and the

Jaffa Cake club (venue 7). Once again the strand opened with a flagship collaboration between a well-chord changes more than I regarded rock band and a did. The Reid brothers seem. modern classical composer. Whereas, however, Michael Nyman's creative collaboration with The Divine Comedy last year consisted of a single song and an extra pair of hands at the keyboard, Steve Martland worked in much greater depth with Spiritualized, augmenting the band's numbers primarily with arrangements for an early-music vocal ensemble. This meshed most successfully with the hypnotic, narcotic rush of Spiritualized's trademark sound.

Flux organisers David Sefton and Alex Poots have spread their fare skilfully:

runners The Deleados to the old-school shricky-guitar class of The Nectarine No. 9. rated David Henderson.

Most eagerly awaited were And Mary Chain. Never having seen the band live before, I expected to enjoy its blend of roaring, fed-back volume and classic pop to be facing the perennial problem of what happens to pioneers once the route they hewed out becomes a common thoroughfare; admiration rather than inspiration was the order of the evening. Pioneers of a different sort, 1960s LSD revolution-

aries Ken Kesey and Ken Babbs, turned in an erratic evening of lame jestering from Babbs and readings and recitations from Kessy which focused on the burden of others' guru-like expectations of him. Nick Cave's two perfor-

mances unsurprisingly sold out well in advance. Cave's several evenings have been solo hour of readings and



A meture, consummate performance: Nick Cave

was perhaps the most electrifying musical event I had ever witnessed. Last Friday he seemed more relaxed and more confident at the keyboard. Helped by the plangent

violin playing of Warren Ellis from support band The Dirty Three, Cave strolled affably but powerfully through a clutch of numbers from his most recent album,

nispo-accompanied sones at of new or uprecorded sones last year's Belfast Festival and even a bizarrely reworked version of "Dead Joe" by his early-1980s band, The Birthday Party. Those who expected the stunted. ranting homonomius of old had their horizons agreeably

Ian Shuttleworth

Flux box office 0131 667 7776;

consummate performance.

THE PROMS THE ST. PETERSBURG PHILHARMONIC

Kissin saves the day

t is good news for the St. Petersburg music director, was its conductor on

take a turn for the worse, if they were going to, but the signs are that at least the top musical institutions are holding up well. The St. Petersburg Philharmonic sounded technically as strong on this visit as in the past and it was no fault of the musicisms that some of its performances were so haphazard.

The better of their two Proms was the second. This had the inestimable advantage of Yevgeny Kissin, Proms' champion after his gladiatorial solo recital last year, making a return appearance with Prokofiev's combative Second Piano Concerto. Kissin's tendency to hit the plano hard may be almost too much of a good thing in this music, but the clarity, especially at speed, is remarkable. Every chord drops into place with the power and precision of a guillotine blade. At the Salzburg Festival Yelim Bronfman showed how a patient planist can build some towering climaxes in this concerto, but Kissin's reactions are fast and brilliant enough to take on all-com-

Philharmonic that foreign orchestras Tuesday. As we know from his associatraditionally visit in the latter part of tion with the Royal Philharmonic, the BBC Proms. This year the Rus- Temirkanov has a fondness for indulsians' foreign currency earnings will be gence and he is just as likely to wallow worth rather more than they would when standing in front of his Russian have been a few weeks ago at the orchestra. Rimsky-Korsakov's suite from The Golden Cockerel and Musorg-After a decade of political and finan- sky's Pictures from an Exhibition cial crises there has been sufficient sounded as bedonistically romantic as of the St. Petersburg strings and brass was a welcome pleasure.

The performance made its wobbly way like a woozy man who has taken a sleeping pill

Whatever reservations one might have about Temirkanov, it was a relief to encounter him after Monday's Prom, when the same orchestra had to make sense of Gennady Rozhdestvensky at his most wayward. The best of this programme came at the beginning. with a short but compelling tribute to Schnittke. From then on it was downhill all the way, first to a soggy performance of Tchaikovsky's Romeo and Juliet, then to a lacklustre pairing of father and son, Sasha Rozhdestvensky as the soloist, in Prokofiev's Second Violin Concerto. It came as scant con-The Boatman's Call, a brace events continue until August 29. Yury Temirkanov, the orchestra's solution that one could hear extra Richard Fairman

detail in Stravinsky's Petrushka when the speeds were so pedantically slow. Anyone at Rozhdestvensky's disas-

trous Prom with the BBC Philharmonic the previous Thursday will have known all too well what to expect. In Walton's First Symphony the conductor seemed to be reading the score (not without some signs of surprise) as he went along. The performance made its wobbly way like a woozy man who has taken a sleeping pill.

One shudders to think what must have been going on in the complexities of Simon Bainbridge's Ad ora incerta (1994), which Rozhdestvensky had chosen to conduct earlier. At nearly 30 minutes this song-cycle, a setting four poems by Primo Levi, survivor of Auschwitz, is arguably the major new work at the BBC Proms this year. The scale of the piece, together with its strangely uplifting gaze towards a bet-ter world, recalls Mahler's Das Lied von der Erde, though that is not meant to imply any cribbing. Bainbridge also has Mahler's ability to invent striking orchestral ideas that sound as if they could only possibly be played by this or that particular instrument.

There is a whole symphony going on here to the point that the less interesting vocal part often seems redundant. It did not belp that Susan Bickley, the mezzo soloist, paired with Kim Walker's solo bassoon as companion, had to struggle to make herself heard. The real achievement of Ad ora incerta is its ability to create a world in sound that allows the listener to step into another time and place. Bainbridge deservedly won the Grawemeyer Award for the work last year.

INTERNATIONAL

Arts

AMSTERDAM

EXHIBITION Tel: 31-20-673 2121 The Secret Unlocked: German Furniture Opened. Nine pieces deting from the end of the 16th to the end of the 18th century. chosen from the museum's collection of cabinets. Includes four places by the the cabinet-makers Abraham and. David Roentgen; to Aug 30

CHICAGO EXHIBITION Art Institute Of Chicago Tel: 1-312-443 3600 www.artic.edu Songs on Stone: James McNeill Whistler and the Art.of Lithography. Around 200 works by the American expatriate, including drawings, etchings and

COPENHAGEN CONCERT Tivoli Concert Hall

Los Angeles Philharmonic:

paintings; to Aug 30

conducted by Esa-Pekka Salonen in works by Copland, Mahler and Sibelius. With mezzo-soprano Lorralne Hunt; **AUG 28**

EXHIBITION Louisiana Museum of Modern Art, Humlebaek Tel: 45-4919 0719 www.louisiana.dk Louislana at 40: The Collection Today. Anniversary exhibition of the permanent collection, designed to showcase 40 years of work. Highlights include works by Giacometti; to Aug 30

EDINBURGH DANCE Edinburgh International Festival Tel: 44-131-473 2000 www.go-edinburgh.co.uk Nederlands Dans Theater II & III: Couple, The Old Man and Me, Solo and Grosse Fugue, plus the world premiere of a new work by van Manen, given by the senior company. Edinburgh Playhouse; Aug 28, 29, 30

OPERA Edinburgh International Festival Tel: 44-131-473 2000 www.go-edinburgh.co.uk Don Carlos: by Verdi. The Royal Opera in Luc Bondy's production. The conductor is Bernard Haftink and the cast Includes Karita Mattila and Thomas Hampson; Edinburgh Festival Theatre; Aug 28

THEATRE Edinburgh International Festival Tel: 44-131-473 2000

www.go-edinburgh.co.uk Life is a Dream: by Calderón, in a translation by John Clifford. Royal Lyceum Theatre Company designed by Calixto Bieito; Royal Lyceum Theatre; Aug 27, 28, 29

GLYNDEBOURNE OPERA

Tel: 44-1273-815 000 Le Comte Ory: by Rossini, Revival conducted by Yves Abel and directed by Jerôme Savary, with the London Philharmonic Orchestra: Aug 28

LISBON FESTIVAL

Expo '98, May 22-Sep 30 Dive into the Future: this performing arts festival comes under the Expo umbrella and includes the premiere of a new work by Alan Platel; to Aug 31

LONDON CONCERTS BBC Proms, Royal Albert Hall Tel: 44-171-589 8212 Berlin Philharmonic Orchestra: conducted by Claudio Abbado in

works by Mozert and Bruckner. With flautist Emmanuel Pahud and harp soloist Marie-Pierre Langlamet, Aug 27 Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Wolfgang Rihm, Schumann and Brahms. With piano soloist Maria Joao Peres;

BBC Proms, Royal Albert Hall Tel: 44-171-589 8212 Simon Boccanegra: by Verdi Semi-staged, Glyndebourne Festival Opera production conducted by Mark Elder with the Loridon Philharmonic Orchestra and soprano Elena Prokina; Aug 29

LUCERNE CONCERTS International Festival of Music Tel: 41-41-226 4400 www.LucemeMusic.ch/ St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Rimsky-Korsakov, Prokofiev, Stravinsky and Ravel. With violin

sololet Dimitri Sitkovetsky;

Aug 28 ● St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Shostakovich and Tchaikovsky. With cello soloist Antonio Meneses; Aug 29

NEW YORK EXHIBITION Pierpont Morgan Library Tel: 1-212-685 0008

a.k.a. Lewis Carroll: display of memorabilia marking the centenary of the death of Charles L. Dodgson (1832-1898), mathematician, photographer and author of Alice In Wonderland; to Aug 30

PARIS EXHIBITION Tel: 33-1-4703 1250 In defiance of painting: "Je ne peins pas, je cloue mes ableaux", wrote Kurt Schwitte This century has seen many artists forsake their brushes in favour of a variety of other implements. Burri, Fontana and Armen are some of the artists. represented in this exhibition. which proposes to explore this dimension of painting; to Aug 30

SALZBURG **OPERA** Salzburg Festival Tel: 43-662-844501 Le Nozze de Figaro: by Mozart, Conducted by Sir Charles Mackerras in a revival of Luc Bondy's staging, directed by Joël Lauwers. With the Vienna Philharmonic and Opera. Cast includes Dwayne Croft and Barbara Frittoli; Kleines Festspielhaus; Aug 27, 29 Saint François d'Assise: by Messiaen. Conducted by Kent Nagano in a staging by Peter Sellars. With the Halle Orchestra

cast including José van Dam and Dawn Upshaw, Felsenreitschule; Aug 28, 30 THEATRE Salzburg Festival Tel: 43-662-844501 Geometry of Miracles: by Robert Lepage. Performance based on the life and work of the architect Frank Lloyd Wright. Co-production with Ex Machina,

Perner Insel; Aug 28, 29

and Schoenberg Choir, and a

 Troilus and Cressida: by Shakespeare. New, co-production with Theater Basel, directed by Stefan Bachmann; Lehrbauhof, Aug 28, Aug 29, 30

SANTA FE **OPERA** Santa Fe Opera

www.santaleopera.org Madama Butterfly: by Puccini. John Crosby conducts a production directed by John Copley; Aug 29

SCHLESWIG-HOLSTEIN

Schleswig-Holstein Music Festival

CONCERTS

Tel: 49-431-567 080 Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Schoenberg and Bruckner, Hamburg. Musikhalle; Aug 27 NDR-Sinfonieorchester. conducted by Christoph Eschenbach in Mahler's Symphony No. 2. With the NDR-Chor and Chor des Bayerischen Rundfunks; Lübeck, Musik- und Kongresshalle; Aug 29, 30

TOKYO CONCERT Suntory Hall Tel: 81-3-3584 9999 Quebec, and EXPO 1998 Lisbon: New Japan Philharmonic: Kazuhiko Komatsu conducts new

works by composers including Gondai; Aug 29

VERONA OPERA Arana di Verona Tel: 39-045-800 5151 Tosca: by Puccini. New production by Giuliano Montaldo. Cast includes Ruggero Raimondi and the conductor is Angelo Campon; Aug 28

Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo. Conducted by Daniel Oren; Aug 29

TV AND RADIO WORLD SERVICE

BBC World Service radio for Europe can be received in westem Europe on medium wave 848 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

 CNN International Monday to Friday, GMT:

06.30: Moneyline with Lou Dobbs 13,30: Business Asia 19.30: World Business Today 22.00: World Business Today Update

Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Jonathan Ford and Alexander Nicoli look at the prospects for Airbus, now ahead of Boeing in aircraft sales but facing a difficult transition to a single company

t has been a historic week for Airbus, the European aircraft manufacturer. On Tuesday, it planted its flag in a citadel long the exclusive preserve of its rival, Boeing of the US, by finally selling aircraft to British Airways.

The orders, for up to 188 short-haul aircraft, will in effect limit Boeing's future relationship with the airline to that of a supplier of longhaul aircraft. Although this is far from a negligible position - reinforced by BA's simultaneous order for up to 32 Boeing 777s - the deal was hailed as a momentous win for Airbus. The last big airline in Europe that was not an Airbus customer had

The deal vaults Airbus into a position it has only once before occupied - that of having won more orders than its US rival. So far this year. Airbus has firm new orders for 377 aircraft against Boeing's 355. The last time it occupied this position was in 1984, during the last slump in aircraft purchasing. Airbus has also won important orders in Latin America and the US -Boeing's backyard.

Airbus has won market share partly because it makes good products. But its recent successes have also come about partly because Boring has been buffeted by reverses. Plagued by the dollar's strength and production problems at its Seattle manufacturing base, Boeing last year recorded its first loss in 50 years.

Last month, the US manufacturer announced it expected to make earnings of about \$1bn this year, a margin of just 2 per cent on sales against a target of 7 per cent. Boeing's difficulty has been Airbus' opportunity.

Many of Boeing's problems stem, perversely, from the success of its upgraded 737 model, which it offered BA in competition to Airbus, In the past 21/4 years, the US manufacturer has received orders for 1,019 of these aircraft, nearly two-thirds of all the orders it has taken. It has struggled to meet

topical issue.

Guest Speakers:

The FT IT & Customer Loyalty Seminal



tants AT Kearney. "Boeing

long-haul market, Airbus

has emerged as a powerful

competitor in the short-haul

Boeing says its rival has

done this partly through

where it, as a listed com-

pany, cannot compete.

"Producing at a loss is not

an option for us or our

shareholders," Boeing said

in response to the BA deal.

has been prepared to under-

cut Boeing's prices to boost

market share. This has been

done not just through price-

cutting, but by offering

extensive performance guar-

Boeing also argues that

Airbus has an unfair advan-

tage because its unusual

FINANCIAL TIMES

Conferences

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BREAKFAST SEMINAR:

2 SEPTEMBER 1998.

IT AND CUSTOMER LOYALTY

THE FINANCIAL TIMES, LONDON

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antees and warranties.

Analysts believe Airbus

a blessing in disguise."

a significant blow, all but the European manufacturer is not exposed to the same knocking Boeing out of the short-haul market in Europe, public scrutiny as a listed it was scarcely catastrophic many. As a Groupement for the Seattle company's d'Intérêt Economique, a French legal construct, Airorder book. The 737 continues to sell well in the US. bus publishes no accounts Latin America and Asia. and makes no profits and "I doubt anyone in Seattle losses in its own right. lost all that much sleep over Instead, these accrue to its the loss of the BA short-haul owners: Aerospatiale of order." said Dan Goodman. France and Daimler-Benz head of the aerospace prac-Aerospace (Dasa) of Ger-

which has 20 per cent, and Casa of Spain, which has 4.2 have too many orders to fulfil, not too few. This could be per cent. The BA deal underlines long campaign against the government subsidies Airchanges to the aircraft industry during the boom under way since 1995. While bus has received to develop Boeing has dominated the new aircraft.

many, which each own 37.9

cent, British Aerospace,

Airbus admits early modenjoyed substantial launch assistance, but claims this has tapered off in recent years. Its most recent model, the 185-seat A321, was developed without any launch aid, it claims.

Airbus is, however, on the verge of change. Its owners are in the midst of protracted negotiations on converting it into a single corporate entity which would make its results more transparent and give Airbus managers some idea of the consortium's manufacturing

The four partners manubus aircraft, each quoting a price for the work. But Airbus central management

does not know how much costs each company to make its components. And without a clear idea of costs, it has

no way of reducing them. Noel Forgeard, Airbus's new managing director, believes a single company would find economies of scale by being able to buy centrally goods and services currently purchased by the four partners. In theory, it should also be able to improve customer service because it would handle the manufacture of its own air-

But change is proving difficult. Questions such as the domicile and tax status of the new company have yet to be resolved, and the most difficult issue - bow to value assets the partners will put into the new company - has yet to be tackled. Further complicating the

issue have been moves to

merge the three largest partners into a bigger European aerospace and defence company of which Airbus would be part. Politicians in Britain, Germany and France have put companies under strong pressure to consolidate in order to do battle with Boeing and Lock-heed Martin, the US defence and aerospace giants, which are both much larger than the individual European companies as a result of a series of mergers. A threeway European merger, however, may be some way off, since BAe and Dasa would be unwilling to merge with Aerospatiale as long as the French state retains its large

Though the negotiations on restructuring Airbus are difficult, that they are taking place is a measure of its shareholders' confidence. While a single company could prove a more nimble rival to Boeing, greater tran-sparencycould force Airbus to be wary of chasing market share

"The restructuring of Air-bus would be good for everybody," said Mr Goodman. "It is big enough to stand on its company would give everynomics of the industry.

LETTERS TO THE EDITOR

Hong Kong market action not due to pressure from property interests

Sir, I refer to the article "Hong Kong Poker" in the Lex column on August 20. Of the umpteen articles written by both financial and non-financial press since the Hong Kong monetary authority's action in the Hong Kong stock market your correspondent's article is well-balanced and analyses the situation fairly except in one aspect.

The Hong Kong Monetary Authority's action was not due to pressure from property developers. I can speak with a little authority as I represent the real estate and construction industries in the Legislative Council. Secondly, the HKMA's

action was welcomed by a great majority of the com-

and the financial sector in sions when fundamentals Hong Kong as we felt utterly play little part. If this haphelpless in the face of continuous onslaught by speculators who initially reaped profits on attacking the US/ HK dollar peg and when such action proved unsuc-cessful they then sold short on our stock market Hang Seng index and gained even in the stock market? There is no doubt we, like more profits. This was brought about because by our Asian neighbours, are attacking the dollar peg going through a lot of adjustinterest rates would go up,

the key index shares and short selling these would virinally ensure success. Stock and currency mar-

which would bring about a

If this wasn't enough, bor-

munity other than the media ciently but there are occapens I believe it behoves those having responsibility not to take some corrective measures. No one criticised the HKMA when it took action in the currency market; why did they do so when the HKMA took action

ment pain but I am confident that Hong Kong's resildecline of our stock market. ience, discipline creativity will prevail.

rowing stocks of several of Ronald Arculi. Room 2718, Jardine House, One Connaught Place

Doctors' role in the drugs-in-sport scandal

Sir, Your leader ("Kicking Drugs", August 21) recog-nises that the sporting world's governing bodies alone cannot stamp out the growing practice of doping in sport.

You go on to rehearse what should be done, but you fail to mention the role that doctors can play in tackling this growing

The involvement of doctors around the world in assembly in Ottawa in Octo-

women to cheat by taking performance-enhancing drugs is a scandal that must dealt with. Doctors who help their patients to conceal the use of drugs by means of pharmacological manipulation are acting totally uneth-

Doctors must censure colleagues whom they know to involved in this

At our annual general

assisting sportsmen and ber, the World Medical Association will be considering fresh guidance for the doctors national medical associations on how best to expose the medical abuses now

The World Medical

Dangers in drawing distinctions over bombings

Sir, In John Lloyd's article "Ghosts of Republicanism" (August 18), he quoted Dr Bruce Hoffman of St Andrew's University. Dr Hoffman said that the "old" terrorism of the IRA "recognised some restraints and had a precise goal".

It's important to keep a perspective on this. During the early 1970s, I was living in England, and remember

hearing of the IRA bombing restaurants. Indeed, a second cousin missed by sheer luck and about 20 minutes being caught in such an attack. It is difficult to discern the

element of restraint present

in such acts of violence. whether it is terrorism or use of nuclear weapons, is without restraint, and we should not allow ourselves to become entranced by fine

bombs in Omagh and in Nairobi would probably be classed as contrary to international law, the same way that use or threat of use of a nuclear weapon have been ruled to be contrary to inter-

5 Ella Street. Ottawa K1S 2S3

No case for grand juries in criminal proceedings

From Mr Keith Wedmore.

Sir. Nancy Dunne is wonderfully non-judgmental about American grand juries "Starrs and Bars", August 18). Their job is to decide if a person should be tried in ndictment. They are a preposterous institution. England disposed of them in . 1934, and replaced them by the magistrates' court committal hearing.

In England, the process is not secret or shielded from the defence; lawyers for the lefence may ask questions, submit no case to answer. and even call evidence if they choose, although this is rare. (They may also ask for there to be no publicity.) .

For some 30 years there has been no need for any witnesses to be called live if the defence do not wish to see or question them. All this results in the dismissal of thin cases; and in cheap and speedy preliminary hearings. Not a bad

America has cumbersome grand jury hearings held in secret: and so one-sided that as your correspondent said, one could indict a ham sandwich; and out of which all sorts of leaks and misfortunes may flow - need I give

The only thing good about them is the privacy and anonymity of the jury, which should be salvaged and transferred to American trial juries, where it is much needed. The grand jury in criminal matters could then be allowed to sink without

"Rubber stamps," she sys. So who needs them?

Keith Wedmore Cornelia Avenue. Mill Valley, California 94941-1840.

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PERSONAL VIEW DANIEL YERGIN

Enter the three bears

The bears are lurking in the woods. It will be no picnic if they catch up with Goldilocks

County Road in Truro, Massachusetts, to the so-called town centre, a couple of shops that serve the houses hidden away in the woods and perched above the beaches. I do this walk every day

partly to pick up the newspepers, partly because, often enough, I run into Von Mensch. Who is as good as anybody I've ever met at thinking about the stock market.

For years now we've sat, shooting the breeze, on the wooden benches in front of Jams, the general store, just across from where the bus puts down people from Bos-

Von Mensch is very market-focused. In this scandaldrenched era, he is not interested in scandal, save as it affects politics, and he's mainly interested in politics insofar as it affects the mar-

This particular day is the hottest since 1947, and we are tossing back our habit-ual bottles of mineral water. Von Mensch holds up his

"This sells for a multiple several times that of a like amount of oil," he says. "Its price is going up. Oil's is going down. This water is the new economy, the service economy. Oil is the old economy, the industrial

I knew he was getting to

"It's as though two different worlds exist at the same time," he continues. "There are certainly two different great investment theses out there. One is the Goldilocks economy. I read that phrase at least five times a week. Everything works together: the restructuring, the deficit conquered, flexible labour markets, growing corporate profits, the high-tech service economy, the internet, blah,

"That's how you get to Goldilocks: low inflation, good growth and low unemployment all at the same time. Not too hot, not too cold, just right. And it's not just Silicon Valley." He gestured towards Jams.

understaffed. Dinner takes political jolt, something three hours in any restau-



Mary Evens Picture picture library

they can't get enough waiters, even with all the university students that get packed over here. And the new paradigm justifies new price-earnings multiples, much higher than historical standards. That's America. And that may be western Europe over the next several

Von Mensch rocks back against the bench. "There's just one catch.

It's called the rest of the world, and there the deflationary thesis does not need any more proof. Asia, Russia, maybe Latin America it keeps unfolding. People still call this the high-tech. instantaneous crisis. But the economic crisis is already in its second year. It only took portfolio." six months from the collapse of the Credit Anstalt Bank in Vienna in 1931 to get to the bottom of the Great Depression, and they didn't have

computers then Yet this crisis is still getting worse. This is the flip side of the Goldflocks economy. It's the Three Bears economy: contagion, collapse and turmoil. And if this thesis is right, at some point some combination of factors "I've never seen that store so - too many crises at once, a

that underpins the new paradigm multiples.- And then all those investors who thought that you were supposed to buy on dips will decide that they had better protect what they have made, or at least the 90 per cent that remains of what they had made. And I don't want to be in their way as they head for the

By this time we are headed back along Old County Road. "So," I ask, "what are you doing with

your money?". "I have two portfolios. Half is in my Goldflocks portfolio: internet companies, Dell computer, AOL, media plays, high multiples. The other half is in my Three Bears

I ask him what that was. "Simple". He pauses. "Sounds schizophrenic."

"I know," he says. "I think You've got to be worried about a Yeltsin who's only good for 2% hours a day. The next person he ought to fire is himself. But that's only an extreme case. People talk about General Lebed in Russia. But I see other Lebeds beginning to appear. There's will shake the confidence one in Venezuela. He's

named Commandante Chavez, and he's leading in the polls. I also worry about too many alarm bells going off at once, about the last superpower getting over-

"There's also this strange business that every piece of bad news in the rest of the world gets interpreted as good news for Wall Street. You know: Flight to quality. Safe harbour' - all that,

"And then there are those boom-time indicators. Graduating MBAs starting at \$120,000 a year. In the latest survey of the blue-chip economists, not one said that there would be a recession. People say that they don't ring a bell at the top of the market, but all that sounds like a peal of bells to

Von Mensch looks off down the hill, towards Cape Cod. The sun was glistening on the water, from a cloud-I'm going to reallocate. I'm less sky. Then he looks to worried about leadership. the left, into the trees. "I could be very wrong," he says. "But, personally, I think the three bears are in those woods. And I don't see how Goldflocks can outrun

Dan Yergin is president of

listan in pe

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FINANCIAL TIMES

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Thursday August 27 1998

Continuing correction

in the face of Asia's financial tion in Chma. Commodity prices crisis, world markets have remain depressed. This, together proved surprisingly resilient. with a general cooling of inves-This summer has seen a correctors' attitudes towards emerging tion across Europe and the US, but equities remain at historically high valuations. With Rus- gion in Latin America. This sia now on the edge of collapse, markets are increasingly fittery. Shares in Frankfurt, London

and across Europe fell yesterday amid more bad news from Russia. New York opened gloomily. It has been a terrible week for hedge funds exposed in Russia. Gains from a relatively good 1997 have been wiped out. Funds that are highly leveraged are likely to collapse. Separately, Credit Sui-sse First Boston, the investment bank, yesterday warned that global turnoil, in particular the Rossian crisis, had cut expected profits for the year by \$500m. Russia has now unveiled plans

to restructure \$40bn of short term debt into longer-term liabilities. The terms are such that this sia's ability to borrow on world markets has been undermined for years to come. The rouble fell 40 per cent against the DM. This implies a rate of almost 14 ron-bles to the dollar, completely at odds with official policy. Russian

that things will soon improve in fall, reviving fears about devalue- very tall order.

against international terrorism

but they have made the problems

of neighbouring Pakistan immea-

svoid default on its \$42hn foreign

with a commitment to sign the

Comprehensive Test Ban Treaty.

wave of anti-US emotion has

gripped the country, giving its politics a decidely more funda-

mentalist tone. Mr Sharif is now

ill-placed to sign the CTBT with-

to the US. Nor would it be easy

for him to accept unpopular IMF

conditionality which could also

be seen at home as a punishment

Yet the alternative is simply a

chaos. This is doubly alarming

because of the heightened risk of

clariy dangerous now both coun-

tries are declared nuclear powers

unstable politics of the Middle

Mr Sharif's fall-back solution

age expected from the Islamic rise to it.

drift into economic and political - nuclear example.

dictated by Washington.

This prospect has receded as a

surably harder as it struggles to be \$40n or more.

markets and a general rise in risk premiums, threatens contawould quickly feed through into the US economy.

Amid a tide of earnings down-grades over the summer, there has already been a mini-correction. The Dow Jones Industrial Average is down 9 per cent this week from its July peak, and smaller companies have performed far worse than this. London shares are down 10 per cent since July, and the German Dax has fallen 15 per cent. European markets as a whole are down 13 per cent since July's peak. Asian markets are down 30 per cent since the start of the year, with the Nikkei down 11 per cent since

Even so, western markets remain at high ratings supported by low interest rates. The question now is: could a correction turn into a bear market? The threat is not inflation - which remains low almost everywhere

- but rather a world recession. It is the US that the world relies on to act as the consumer shares are down 87 per cent from of last resort. For this role to continue, extraordinarily high There is little cause for hope stock market values must be maintained while corporate earnthe international economy. Asia's ings fall in the one-third of the crisis continues. Japan's plight US economy exposed to internaworsens and the yen continues to tional competition. It looks a

Expect the paralysis to endure. Pakistan in peril The US missile attacks on Development Bank and other Afghanistan may have made Middle Eastern donors. But, sense as part of America's war though this could amount to as much as \$1.5bm, it is no long-term solution when the external fund-

ing shortfall this year is likely to witching hour. Ultimately Pakistan will have to turn to its western creditors Until the attacks, there was for help in constructing a rescue some hope that Nawaz Sharif, the that involves both new money prime minister, could reach a res-and a full-scale rescheduling. Mr cue agreement with the Interna-Sharif would be deluding himself tional Monetary Fund in parallel and his country if he pretends otherwise. Nor, given the failure of his government to deliver vital reforms in banking and tax collection, is there much alternative This will be a difficult pill to

swallow, but it would a mistake election.
"The chance was missed to for the outside world to sweeten out being accused of selling out it by softening the unspoken nuclear conditions. Having gone down the road of sanctions, the west cannot afford to give in and appear a pushover. That would be to invite other developing countries to follow Pakistan's

The sad truth is that Pakistan Mr Fischer's remarks can be would be much better off today if confrontation with India - particity it had maintained the high moral ground - not matched india's nuclear tests - and embraced the and because of the chance that aid on offer from the west. It is Pakistan could be sucked into the not too late to adopt this course, but it will be a much stiffer test of Mr Sharif's statesmanship. The region will be a more dangerous for the economy is an aid pack- place while he decides whether to national stability.

View from Fortress Europe

Lionel Barber argues that the EU is being complacent if it thinks it can remain immune from the economic and political chaos raging from Moscow to Tokyo

icture a medieval castle during the Crusades. Famine, pestilence and war ravage the countryside. But behind the stone walls, the inhabitants insist they are

.Welcome to Fortress Europe, summer 1998. Impregnable against external threats whether they stem from financial collapse in Asia, a global recession, or the disintegration of Russia into a nuclear-tipped gangster state.

The mood of complacency in the European Union is driven largely by the recovery in France and Germany and the imminent launch of economic and monetary union. But two more recent developments challenge the notion that the EU can remain immune from the shocks reverberating around emerging markets.

The first phenomenon - ominously captured by yesterday's chain-reaction in the Asian, US, Enropean, and Latin American stock markets - is that the shocks are occurring simultaneously and in many instances are mutually reinforcing. Conta-gion is no longer a risk; it is a fact of life.

The erosion of market confidence coincides with a second phenomenon: the emergence of a political vacuum in Moscow Tokyo, Washington and Bonn, Bill Clinton lies prostrate over his admission of sexual frolics in the White House. Boris Yeltsin stands exposed as a puppet president propped up by financial oilgarchs. Keizo Obuchi, Japan's prime minister, has been written off after a few weeks in office. And Hehmut Kohl, Europe's elder statesman, is fighting for his political life sheed of Germany's september general election.

Mr Clinton can hope for few invours from Kenneth Starr, the independent counsel shortly to report to Congress on his financial dealings and private life; nor from the Republicans who know that the threat of impeachment is a more effective weapon in the run-up to the 2000 US presidential election than the act. As for Messrs Kohl, Obuchi and Yeltsin, protracted succession struggles are under way irrespective of election timetables. It is the political equivalent of the triple

The cumulative effect is an political considerations. absence of leadership and an ad hoc approach to the international the International Monetary Fund, minds were told to prepare (yet oiced frustration this week when he blamed Germany for to discuss adjustments in the balfailing to seize the initiative in a fresh rescue package for Russie. His suspicion was that Chancellor Kohl had no stomach for putting up more money before the

help Russia out at a time when the situation was by no means helpless," Mr Fischer told the Frankforter Allgemeine Zeltung. "Without the Germans, of course no other country was prepared to support Russia financially."

seen as a pre-emptive strike doubts about the effectiveness of the IMF's multi-billion rescue packages in South Korea, Indonesia and Russia. But his comments raise broader questions about the role of the RU as a contributor to regional and inter-



The Union and its 15 member states have contributed generously through IMF packages and technical aid to strengthen exposure of German banks to domestic banking supervision in Asia. But at the highest political level, EU leaders have shown themselves driven by domestic

ance of power between Brussels and the 15 member states. Today, these priorities look

skewed. They rest on three questionable assumptions. The first is that Europe can afford to expand eastwards at a leisurely pace. The October summit looks like an exercise in navel-enting while the tacit belief that the former Soviet bloc countries will have to wait until 2005 to join the Union looks complacent, especially if Russia slides toward nationalism. As one lone dissident said this week: "The Commission should be asking itself whether the

doing so, and how to strengthen the overall partnership with Moscow and Ukraine." The second assumption under scrutiny is that European banks can be shielded from financial

OBSERVER

Union should enlarge to Russia,

what are the consequences of not

collapse in Russia and elsewhere. The authorities have brushed aside concerns about the \$30bn Russia on the grounds that most of the funds are backed by gov-

ermment guarantees or collateral. But according to December 1997 figures produced by the All the difficult negotiations Bank of International Settleover eastern enlargement were ments. European banks have Brussels. But officials grudgingly community's efforts to contain, put off until after the German more than 55 per cent of all concede that growth in the euro the Asian crisis. Stanley Fischer, general election. In the mean-developing country loans, French zone next year may not be as first deputy managing director of time, the best civil servants' and German banks have \$510n of high as the 25 per cent-plus origi-

> The world is now facing the political equivalent of the triple witching hour

loans outstanding in Latin America, almost as much as US banks. As for the massive hits taken by foreign investors on Russia government debt. savs one London. investment manager, "the debris has still to hit the ground".

The third assumption that no longer looks so comfortable is sone may also be weaker than that the EU could count on a trouble-free launch of the euro on January 1, 1999. Just a few months ago, Emu looked to be proceeding in the best of all possible worlds. The selection of 11

strongly that he plans to hand the job down - or, as he puts it,

to the best person "even if he is

unlucky enough to be my son".

Hamster fisted

Jürgen Rüttgers, Germany's

he lauded the government's

science and technology minister,

was a proud man yesterday, as

achievements in supporting the

biotech Industry.
The authorities in Göttingen

might disagree. Their plan to

run into serious trouble after

hamsters in the way.

Now even the public

interest in the city's plans.

build a biotechnology centre has

environmentalists found 100 field

prosecutor's office is taking an

"Nowhere in Europe," Prüttgers

claimed yesterday, "are there

better conditions for biotech

companies." As long as the

countries, including Italy, as founder members had gone ahead without the much-predicted recrimination. Growth in France and Germany was accelerating. All the talk in Brussels was of the coming euro-boom.

The idea that a global recession

could disrupt the Emu timetable is still regarded as a bad joke in nally predicted. That means the prospects for substantially reducing Europe's chronic unemployment will recede, increasing pressure on left-wing governments in euro as an inflation-killer, would France, Italy and perhaps later in suddenly be put on the spot. It Germany, to put off the struc-

Much turns on what happens in the German economy. Despite the growing confidence of the text for pursuing a misguided corporate sector, many experts still believe its recovery is relatively fragile. Germany has traditionally relied on export-driven growth, it has never experienced US-style growth which derives from a dynamic internal market with high labour flexibility. That suggests the outlook for the euro

tural reforms needed to make

The counter-argument to this stmism is that the launch of the euro will act as a catalyst to the single Buropean market and that Germany will be the big

winner. Europe will become more self-contained, along the lines of the US economy. In short, it will become a genuine regional power which - to echo a favourite phrase in Paris - will be emancipated" from the dollar and Wall Street.

The trend toward autarky is helped by trade patterns. Inside the future Emu bloc, the export share of gross domestic product will be around 10 per cent, close to that of the US but much lower than current levels in all of the EU economies. (Trade between two Eil members - now counted as foreign trade - will become "domestic" in the euro zone.)

Yet there are risks in this rosy euro-scenario. The EU - or rather the Emu bloc - will take the argument in favour of the euro as ole of stability too literally. Policymakers will adopt a fortress mentality, obsessed with making monetary union work and less concerned with Europe's responsibilities to the outside world. These obligations must go beyond the EU's view of itself as a bulwark against chaos. It requires a recognition that the curo is not merely Europe's political monument, but a tool that should force Europe to organise itself to deal with instability beyond its borders.

That means resolving the ambiguities in the Maastricht treaty about the respective roles of the politicians and unelected central bankers, starting with exchange rate policy for the euro vis-a-vis the yen and dollar. At present, who speaks for the euro remains as unclear as who speaks for Europe on foreign policy.

Next, the EU and the newly formed European Central Bank must address the discrepancy between the highly developed macro-economic surveillance of member states' performance and the vague provisions for micro-prudential supervision where the ECB role is only advisory. One veteran of the Maastricht treaty negotiations warns that a Rus sian-driven banking crisis in the euro zone would leave the Union exposed with no competent authority accountable.

Finally, the central bankers in Frankfurt may well have to swallow their anti-inflation orthodoxy in favour of a monetary policy that recognises deflation as a new enemy. The official view is that it is too early to assess the risks of imported dellation; but calls for Europe to act as a locomotive to world growth could increase if the Asian virus spreads to Latin America and the US recovery finally falters.

Naturally, Europe's central bankers and political leaders, nearly all of whom have sold the would also test the maxim of Hans Tietmeyer, the hard man at the Bundesbank, that central banks should take no external action that could serve as a preinternal action.
In the old world, such concepts

of national boundaries and national sovereignty counted as an article of faith. But the ripple effect of the Asia-Russia crisis forces Europe to think anew about its international role and responsibilities.

The alternative is a retreat into one of those Middle Age fortresses: a splendid but ultimately flawed defence against the forces

lionel borbera fthe com

Anglo-Russian Disoute

Canada's choice

The Canadian authorities may not be facing the kind of crisis that many emerging markets are now dealing with. But the question of what to do about the falling Canadian dollar is causing fierce debate. The Bank of Canada should not be panicked into

So far, the Bank of Canada's reaction to the falling dollar has been restricted to interventions in the currency market. It has been reluctant to raise interest rates because of the weakness of the economy. Although output grew strongly in the first quarter of this year, figures for April and May indicate that growth in the second quarter is likely to be substantially slower.

They are right to be cautious. A very significant rate rise would be needed to have any effect on the foreign exchange markets; this would crush economic growth. Such a move could even fall in its objective of supporting the Canadian dollar further if it

prompted fears of recession. One policy option being pushed by some economists is to offset the economic impact of a rate rise by tax cuts. However, this could cause the budget surplus to turn back to a deficit, particularly as the weakness of the economy will dampen tax revenues. With Canada's large stock of pub-how costly it can be to attempt to lic debt and history of weak fiscal defend an exchange rate against very damaging development.

It is clear that the cost of defending the currency could be very high. The alternative is to let the dollar continue its downward slide. And in fact, this looks like the most sensible option.

to tough conditionality.

Canada is not just another economy caught in the emergingmarket crossfire. There are fundamental reasons for a weak Canadian dollar. As a major commodity exporter, Canada has been badly hit by the slump in commodity prices over the past omy, particularly relative to the US, is a further reason to expect an exchange rate fall.

Certainly, negative market sentiment is also playing a major part, and the dollar may now be undervalued. But this is unavoidable given the current turbulence of world markets.

And a weak dollar is not partic ularly costly for Canada. With inflation of only 1 per cent, the inflationary impact of the lower exchange rate can be accommodated. And unlike the emerging economies, there is no reason to expect the currency slide to turn to free fall or the banking sector

to collapse. The Bank of Canada is right to intervene to cushion the dollar's fall. But we have seen too many times over recent months just management, this would be a the will of the markets. This is one battle not worth fighting.

Getting bigger, by design

There's a bit of a tussie going on between the two big names.on the publisher's computer . desktop. Quark, the

Denver-based outfit which keeps graphic artists everywhere busy, is trying to buy its much bigger rival Adobe. And the Californian software concern doesn't want to go to the alter.

Fred Ebrahami, the Iranian who runs Quark, insists that a bigger, brighter company is just what the customers want he's only doing it for them. Long-time chums John Warnock and Charles Geschke just want to go on running Adobe.

Not that all has been sweetness and light over in San Jose: this month, there was a bit of a clear-out among Adobe's higher echelons and 300 job losses - though Warnock, a Utah-born electrical engineer, describes Adobe as "a fairly gentle company in a lot of ways".

Ebrahami went to Colorado to get into real estate before being headhunted by Quark's founder Tim Gill, and the two now control the privately-held company. If Quark wins - and it was sounding pretty determined yesterday - Adobe's bosses aren't likely to hang around in

Quark's more hard-driving culture. Geschke could have more time to include his love of "the latest

and greatest gadgets*, and his summer house on Nantucket sland - complete with fishing boat. Warnock's passions are less high-tech; when he's not painting watercolours he's

Swatch this space What is to happen to Tag Heuer,

the Swiss luxury watch company? As it nears the second nniversary of its stock market debut in Switzerland and New York, it ought to be renamed "Dog" Heuer on account of its dismal share price performance. Tag Heuer watches are the

second most counterfeited in Asia after Rolex, but investors haven't shown the same appetite for collecting its shares, which are trading at around half the flotation price. But this poor share

performance doesn't do justice to the Tag Heuer management team, which is reckoned to rank among the best in the secretive Swiss watch industry. If Nicolas Hayek, the

70-year-old boss of Swetch, Switzerland's number one watch company, wanted to solve the succession question overhanging his fiefdom, he could do a lot worse than buy Tag Heuer which he could do out of Swatch's ready cash - and let its management run Swatch. That would leave the problem

of what to do with Nick Hayek

Junior, Hayek senior has hinted

rodents stay out of the way. **Bored of the flies**

When you're in the middle of nowhere and your workforce walks off the job, they can take bit of getting back. Yesterday, more than 1,800 miners abandoned Western Australia's giant Murrin Murrin nickel mine and set out for the fleshpots of Kalgoorlie, just 250km away.

The strike wasn't over pay their food was crawling with maggots and, in a place where even the sand lizards get lonely, you can't just pop out to the

sandwich bar if the works canteen isn't up to snutf. The management of the mine, a joint venture between Glencore

International, the commodities trader, and Anaconda Nickel. blamed "blowfly season" for the magget infestation - something caterers in the area ought to know about.

Those miners who couldn't get a lift or a plane ticket were eagerly awaiting a shipment of "emergency trozen barbecue packs", while managers set out to track down the others in Kalgoorlie's top burger bars. The company says it's going to suggest that packed lunches be kept in the fridge in future.

Press pass

After Bill Clinton's attack on Sudan, the country has been extendino an uncharacterístic welcome to the world's press. Officials give live satellite television interviews and journalists get visas without the

Most sawy of all in this new era of openness is Mustapha Osman, Sudan's foreign minister, who yesterday faced the world's press, eager to hear about Sudan's response to the attack.

Without a hint of a smile. Osman expressed delight that so many reporters from around the globe had come to witness the signing of a new economic co-operation agreement between Sudan and Burkina Faso.

Ginancial Times 100 years ago

Shanghai, 26th August. Violen scenes are reported to have occurred between Sir Claude MacDonald, the British representative, and M. Pavlott. anding the

Tung-li-Yamen to break the agreement with the Hong Kong Bank under pain of the Czar's strong displeasure. The Chinese are inclined to give obedience to M. Paviolf, as confine themselves to verbal protests. At Port Arthur, the Russian troops are being constantly exercised in field manoeuvres under actual war

50 years ago Food Crisis In France

Paris, August 26. French Ministers responsible for domestic economy to-day discussed as a matter of urgency the prices of milk and bread. This is the latest move in a week-long effort to stem the tide of labour unrest by pegging food and commodity prices. After consulting the Butchers' Federation, Food Minister M. Coude de Foresto has decided to introduce a new price scale for meet by which the more expensive cuts would be cheaper.



FINANCIAL TIMES

THE LITCHFIELD OF COMPANIES MANUFACTURING WORLDWIDE NETHER HEAGE, DERBY, DESS 2J. TEC 01773 852311

THURSDAY AUGUST 27 1998

THE LEX COLUMN

Russian for the exits

Few tears need be shed for those like George Soros and CSFB who have lost a packet in Russia. These are grown-up investors who bet wrongly that Russia was too big to fail.

If their bet had come right, they would be in the money. The sorry episode could even carry a salutary lesson: in future, investors are less likely to gamble on the International Monetary Fund's bailing

acceptable. The terms of the forced rescheduling of rouble debt - under which investors stand to lose 80 per centplus of their value - verges on expropriation. Nobody will lend Russia a cent unless there is a complete clean sweep of the Kremlin leadership.

Meanwhile, the Russian crisis is splaying out in new directions. As panic among the ordinary population spreads, the rou-ble is on the verge of total collapse. In one sense, the rush for the exits is rational. Who would trust a government that has just defaulted on its debts - and is struggling with simultaneous banking and political crises - not to resort to printing money? On the other hand, the collapse in the rouble could make fears of hyperinfiation self-fulfilling,

In the circumstances, the only alternative is to slam on exchange controls. Yesterday's closure of the currency market may be the precursor to abandoning the rouble's convertibility.

That would allow the government to fix whatever rate it wants for the currency and pretend it was not collapsing. The snag is that a parallel black market would spring up and Russia would be still further isolated from the global economy.

As if this were not enough, a foreign debt crisis is looming. In the past six weeks, the central bank has lost \$9bn trying to defend the rouble, with the result that foreign exchange reserves are now probably below \$13bn.

Though Russia's \$140bn-plus hard currency debt does not have the same short-term profile as its rouble debt did, servicing it will cost nearly \$20bn between now and the end of 1999. With the current account in deficit (to the tune of perhaps \$8bn this year) and the chances of squeezing more money out of the IMF slim, the government will probably throw in the



As the international crisis worsens, Brazil is playing for time. This is a dangerous strategy. Granted, if the authorities can hold out for another six weeks, President Cardoso, who is on track to be re-elected, should be able to tackle the country's soaring budget deficit - running at 7 per cent of national income. That would allow interest rates to fall, further cutting the deficit, restoring stability and confidence.

But does Brazil have six weeks? The country's domestic debt amounts to a staggering R\$340bn (\$290bn), with an average maturity of just nine months and almost R\$100bn falling due by October. With the government unwilling to raise interest rates before the election, the central bank is being forced to roll over those borrowings into new bonds, linked either to the US dollar or overnight rates. This tactic brings an immediate reduction in the cost of funding - Brazil pays perhaps 15 per cent for dollar-linked debt compared with official rates of nearly 20 per cent. But with almost 60 per cent of domestic debt linked in this way, it also raises the stakes. If the currency comes under pressure or the government is forced to raise interest rates against its will, there would be an immediate impact. on the already bad fiscal situation.

And pressure has been increasing. Net capital outflows amounted to \$2.5bn last week, despite \$3bn of privatisation bullion price to focus attention.

might be hard given that it is not fully convertible. Moreover, nearly \$70bn in erves provides a cushion against limited capital flight. However, the need to roll over so much short-term debt means the next few weeks could be nail-biting. With plans for reform, Brazil ought to survive. But it will be touch and go.

To raise a voice for gold is to invite derision. But with currency and asset prices so volatile, perhaps gold's status as a store of value may help it enjoy a renaissance. The omens, though, are not propitious. Asia is seen as a minus for gold - people are poorer and therefore less likely to buy it. Likewise, turmoil in Russia only invites the response that it will encourage desperate central bank selling. The upshot is that gold, in dollar

What could spark a change? Perhaps speculators will close abort positions as more favourable trading opportunities present themselves. Maybe the advent of the European central bank will mean reduced central bank gold selling. The advent of the millennium could spark a

One might take these arguments as nothing more than the desperate twitches of scarred bulls. But even if the bullion price remains flat, there is a strong investment case for looking at gold shares. This requires dumping the baggage of the dollar gold price and focusing on the local currency price in major prod-ucing countries like South Africa and Australia. Here plunging currencies and serious cost-cutting have dramatically improved industry economics.

Take South Africa: brokers Fleming Martin reckons industry profits will increase fivefold from the first to the third quarter. Against that sort of backdrop, even a dollar investor can afford to regard a 20-25 per cent loss on the currency as a barely visible blemish. Meanwhile, the forecast dividend yield of around 7 per shares. Share prices have yet to reflect this improved outlook. The irony is that it will probably take a rally in the dollar

ROW OVER LTCB PLAN SPARKS SHARP MOVEMENT IN BONDS AND SWAPS

Markets unnerved by fears over Japan's bank crisis

By Gillian Tett and Michiyo Nakamulu in Tokyo and Gerard Baker in Hew York

Concerns about the health of Japan's financial sector yesterday triggered a sharp movement in the government bonds and "swaps" mar-

The spread - or difference between the interest rate charged -between 10-year government bonds surged by 20 basis points during the day's trading. This was more than the 13-basis-point movement recorded during the entire previous

The swing was sparked by a growing political row over the troubled Long Term Credit Bank of Japan, which last week unveiled a restructuring plan in a bld to receive up to Y1,000bn (\$6.9bn) of public funds.
Opposition parties yesterday
forced the cancellation of a parlia-

mentary debate on the problems by

boycotting a special financial committee meeting.

Markets were unnerved by grow-

ing fears that the political row could undermine the country's ability to resolve its wider financial sector

government bonds tumbled to a and Sumitomo Trust - and believe record low of 1.105 per cant. The public money is needed to help that Nikkei 225 average, the key stock process. market indicator, fell L4 per cent to William close at 14,868.03, as banking shares

slid 3.9 per cent.

The swing in the longest-dated swaps market indicates that inves- recovery. The main goal should be tors now believe that securities issued by private banks are becom-

The opposition parties are opposed to helping the LTCB without a clearer explanation from the government as to why the rescue is necessary. The Democratic Party of Japan, the leading opposition party, suspects that the ruling Liberal Democrats (LDP) plan to put public funds into LTCB even though they know the bank is insolvent. Under Japanese rules, public funds cannot be injected into insolvent banks.

The opposition is proposing alter-native legislation to stabilise the financial system, which would include liquidating or nationalising

Finance ministry officials are concerned that allowing a large bank to fail would have dire consequences.

William McDonough, the president

geby further 15%

of the New York Federal Reserve, repeated the US view that Japan. held the key to a broader Asian reform of the ailing banking system. He said the US had co-operated with Japan in currency market

intervention to support the yen in June because Japan was moving in the direction of problem solving solutions that had created an oppor-

He said the main target of reform should be freeing up the underlying asset markets on which the bulk of Japanese banks' non-performing erty. While measures simed at cleaning banks' balance sheets themsalves were welcome, they would not be fully effective without action on the underlying problems.

"No banking system in my knowledge has ever been rescued if the underlying assets beneath the loans are not cleaned out. That's been the common characteristic of all bank-

Clinton and Blair plan meeting to explore 'third-way' policies

President Bill Clinton and Tony Blair, the UK prime minister, aim to take part in a special conference in New York next month to spread their move away from traditional

The one-day conference, tenta-tively scheduled for September 21, is expected to explore the "third way". promoted by Mr Clinton and Mr Blair as an alternative to the left/ right policy debates of the past. Among others expected to attend are Romano Prodi, the Italian prime minister, and Fernando Henrique

are planning to be in New York for the United Nations General Assembly session, were expected to speak at the conference under the broad thems of "Democracy in the Global

The event's timing, close to the German election, means that neither Helmut Kohl, the German chancellor, nor Gerhard Schröder, the Social Democrat leader who is openly modelling himself on Mr Clinton and Mr Blair, is expected to attend. It also remains unclear whether Lionel Jospin, the Socialist French prime minister, will participate.

Cardoso, Brazilian president. The event follows several meet-New York University, which is ings between top US and UK officials place but could not provide details public partnerships to tackle issues about the agenda. However, govern- such as welfare reform rather than

House and Downing Street as a way of focusing attention on their new policy model at a time when many countries are grappling with the problem of balancing economic growth and social justice in an unstable international climate.

The timing of the conference may also help the embattled US president. It is expected to come shortly after the delivery of a report to Congress by Kenneth Starr, the independent counsel, on possible criminal wrongdoing related to Mr Clinton's admission of an "inappropriate relationship" with Monica Lewinsky, a former White House worker. Mr Clinton's advisers believe if he is able to emphasise his strong policy expected to host the gathering, con-firmed that an event was taking mon approach that refles on private- credentials and international stature, it could help sway public opinion and head off possible impeach-

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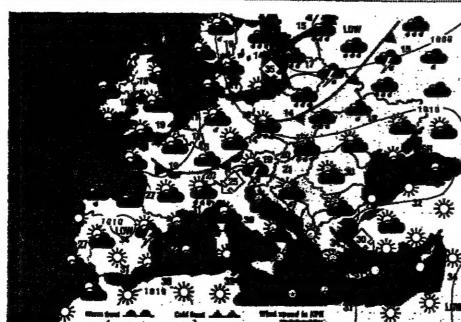
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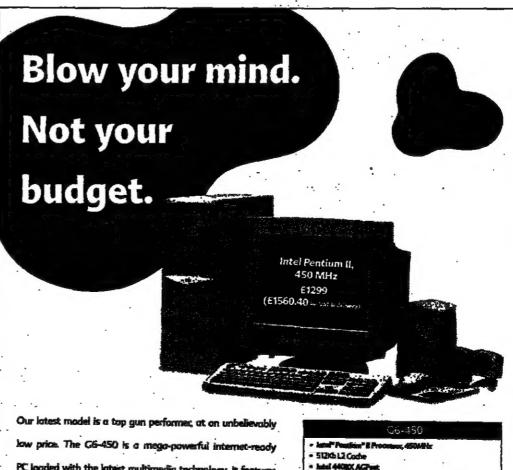
Europe today The north-west will be mostly dry with some sun. Central and easi om regions will have sun and showers. Some of the shower Belarus but also later around the Alps and the Carpethlert mounterns. Scancinevia will have she ers, some langthy, while parts of Finland will stay dull and wet. The south will be mostly sunny but thundary showers may breek out over the north of Spain, italy and

Five-day forecast The north will become drier. Can-

trai and eastern areas will have scrittered showers, mostly clearing by Sunday. Thursday downpours will breek out over Italy this week the Balkans early next week, when rain may threaten France and



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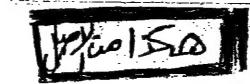
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Harnischfeger to cut its workforce by further 16%

BUILDER

equipment used in the mining sector, is cutting its workforce by a further 16 per cent, in addition to 750 job losses already announced. The naws came as it posted a bigger-than-expected

Celsius, the Swedish defence group, is consid-

Billiton in dividend difficulty Billiton, the mining group under pressure as the year's worst Footsie performer, has run into problems over its R2.97bn (\$450m) offer to gain

Bulgaria to be hub for Russian gas



An accord with Russia signed earlier this year, has moved the Bulgarian government of Ivan Kostov (left) nearer to its ambition to become a transit hub for gas being shipped from central Asia to central Europe. The deal, which ends a Softe-Moscow dispute over

gas prices after communism's fall, provides for increasing imports from the 6bn cubic metres a year now to 19bn cubic metres in 2010. Commodities, Page 20

Johannesburg stocks have been hit by bad news on the domestic front this week. Disappointing inflation data, talk of bank sector trouthe all share index to plunge about 6 per cent yesterday. Emerging Market Focus, Page 30

The New York Times Company has emerged well from the early 1990s recession. Since Arthur Sulzberger Jnr became chaliman in October, it has a renewed focus on newspapers, pruning 1980s forays such as a stake in a Florida poif resort, Page 14

Norway, the world's second largest oil exporter. is to slow still further investment in offshore oil. having already postponed 12 field developments this year. Commodities, Page 20

Asia prompts dip in debt turnover Second-quarter turnover in emerging markets debt fell from \$1,420bn in 1997 to \$1,400bn this time as the Asian crisis, spreading across the developing world, scared off non-specialist

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ering a radical overhaul of its military equipment arm, a move prompted by the consolidation wave in the European defence sector. Page 12.

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LE LO ICH 두 내려다	

man Sachs in Tokyo.

group's management.

merger of Sweden's Avesta (\$39.4m), compared with pre- down SKr1.30 at SKr31.

number two brewer, plans to mori, industry analyst at Goldreorganise its operations and hire consultants to review its

international activities as part of an effort to expand its share deploying them to other of the global beer market. The moves are the latest It will also form two advisory steps by the group to challenge rivals Kirin and Sappore in the competitive Japanese market, and to cultivate a brand image.

in Asia and Europe. Thanks to market, has begun building a . "Whether they really put the success of its Super Dry factory in China to manufacbrand, Asahi threatens to top- ture its Super Dry brand, ple Kirin from the top position Asahi already has Chinese

operations as well as joint ven-"It is remarkable that Super tures with Miller Brewing of the US, Molson, the Canadian recognition. The beer has a tures with Miller Brewing of the US, Molson, the Canadian taste that will be appreciated American sales from 770,000

By Alexandra Harney in Tokyo

overseas ... if is really only a cases last year to 3m cases by
question now of how far the 2000.

Asahi Breweries, Japan's beer can go," said Yuji Fuji. Asahi's move follows

Sapporo that they would cut Asahi will cut staff at its staff and close factories to head office by 20 per cent, reduce costs. Competition between the three has intensiregions of Japan and overseas. fied as the collapse in consumer demand has dried up boards to reconsider the sales across the sector. In July alone beer shipments fell 13.5 The group, which has a 36 per cent from the previous per cent share of the Japanese year, said Goldman Sachs.

some muscle behind their management plan is the issue" that would determine future profitability, said Mr Fujimori, noting that Asahi had not announced any targets for low-

GERMAN CARRIER BOOSTED BY PASSENGER GROWTH, LOWER COSTS AND LINKS WITH OTHER AIRLINES

ufthansa profits double to \$513m

Lufthausa, the German strline. more than doubled pre-tax profits to DM928m (\$513m) in the first half of this year, underlining its position as one of Europe's most profitable

The airline, which was fully privatised last October when the government sold its remaining stake, was helped by low fuel prices, strong enger growth and lower

The figures, published yes terday, show the fruits of the Star-Alliance - its link-up with five other strlines, including United of the US, which allows

or Boonstra does not suf-

fer losses gladly. Since taking over almost two

years ago, the hard-hitting president of Philips (nick-

named "Corleone" in the

industry) has transformed the

Dutch electronics giant into a

money-making machine by

refocusing on a handful of core

divisions and shedding unprof-

in doing so Mr Boonstra has not shied away from short,

sharp shocks. Withdrawing

from Grundig, the struggling German electronics group, cost Philips about Fl400m (\$198m)

So shareholders are natu-

rally curious to see whether

Mr Boonstra will eventually

put another laggard, Philips

Consumer Communications.

The president's patience is

clearly running out. Despening

losses at the joint vanture with

Lucant Technologies, the US

telecommunications manufac-

turer, will probably drag Phil-

ips' flaganip consumer prod-

ucts business into the red this

Presday's revelation that

PCC, due to further product

delays, will not break even

this year precipitated the departure of Mike McTighe,

PCC's chief executive, and

lopped 5 per cent off Philips

cent owned by Philips) started

Avesta Sheffield, one of the

world's largest stainless steel

manufacturers, yesterday

unveiled a restructuring plan

involving 1,000 job losses following a collapse in metal prices and mounting over-

The Stockholm-based group, majority owned by British

Steel, predicted that plants in

bear the brunt of the redun-

dancies, equivalent to 13 per

is expected to take two years.

hare price yesterday.

on the auction block. - - -

itable ones,

last year alone.

the carriers to funnel passen-gers onto each other's flights. The number of passengers travelling on Lufthansa rose 10.5 per cent to more than 19m in the first six months. The results provide fresh

per cent to DM2.6bn. Jürgen Weber, chief executive, has sought to rein in expenses especially in highcost Germany, a move which triggered warning strikes two years ago until a more flexible

wage deal was agreed. Lufthansa is due to begin negotiations with unions on a new pay deal this autumn.

The carrier said it was growth on international flights full privatisation to revalue expecting "a distinct improvement" in earnings for the whole of this year.

Last year Lufthansa increased pre-tax profits to OMI.65bm. The airline said the evidence of the airline's drive Star Alliance added DM400m to cut costs, including labour earnings last year and analysts costs. Personnel expenses fell 1 expect it to contribute about DM450m this year. Despite the results, which

beat analysts' expectations, Lufthansa shares fell DM2.4 to DM45 youterday. Shares rose sharply on Tues-day in expectation of strong

results but were dragged down yesterday as the German stock market fell, analysts said. The airline has strong

Faulty lines leave PCC in danger of being cut off

Philips' president may make its cellular venture an offer it cannot refuse, writes **Jeremy Gray**

医内质性性性 化多二

but is losing money on domestic routes where it faces high

It has taken steps to franchise some less profitable flights to local airlines and has reached agreement with Deutsche Bahn, the national rail carrier, to take passengers on

some short routes. Under Mr Weber, the airline has furthered its strategy of channeling passengers on European flights into its chief hub in Frankfurt where they then take the airline's more lucrative intercontinental

The airline is also using the new financial freedom won by hidden assets which could give it a big financial boost.

It plans to list its shares in Amadeus, the ticketing system, in DHL, the express mail company, and in its catering division, although it has no plans to sell these stakes.

The airline said the sale last year of its stake in Hapag Lloyd, the transport and tourism group, generated DM377m. which, if included in first balf results, would boost pre-tax income to DM1.3bn.

Turnover in the first six onths increased 7.6 per cent to DM10.6bn. Net income rose 488 per cent to DM924m.

lular models this year which mean that PCC is badly posi-

tioned for the all-important

In spite of all the doubts

about PCC, shareholders

appear to have overestimated

its likely impact on the mother

company. Mr Langeveld reck-

ons that PCC will make an

operating loss of Pl681 (\$337m)

for the year, which would reduce Philips' group net profit by just Fisom this year,

cutting earnings per share by

"The stock market reaction

And, with the exception of

PCC, Philips' balance sheet is

is overdone," comments Mr

2.3 per cent to F110.35.

Couwenberg.

Deutsche Bank dips after credit rating cut

Shares in Deutsche Bank. Germany's largest private sec-tor bank, yesterday fell by more than six per cent after Standard & Poor's removed its triple A credit rating - the highest rating possible.

The move, which coincided with growing worries about the extent of German banking exposure to Russian borrowers. leaves just one commercial bank in the world with a triple A rating from S&P: Rabobank the Dutch bank. Seven banks had this rating in 1992 and

even more in the 1980s. "Banks everywhere, including Deutsche Bank, are under pressure from growing compe-tition and globalisation," said Barry Hancock, managing director of financial institu-tions at S&P. "Banks are also losing business to capital markets, especially the bond marketa."

The agency said Deutsche Bank's exposure to Russian and Asian borrowers bad played a relatively limited part in its decision to downgrade it by one notch to AA+. Deutsche Bank's DM1,34bn (\$740m) loan exposure in Russia is consid ered manageable and is covered by a 50 per cent provision. More important had been consideration of Deutscha Bank's high cost structure and the bank's low return on equity which compared badly to its international competitors. At just 3.26 per cent, the bank's adjusted return on equity compared poorly to Rabobank, for example, which achieved a return on equity of 8.84 per cent last year, accord-

ing to the agency. The agency also pointed to persistent worries about the performance of Deutsche's investment banking arm - formerly known as Deutsche Murgan Grenfell.

Despite a restructuring programme to integrate its investment banking arm with the parent commercial bank, the addition, Deutsche's increased emphasis on high-cost invest ment banking had magnified its "dependence on more volstile trading and capital markets activities," said S&P. Deutsche Bank's rating out

look remains negative, which implies a strong possibility it could be downgraded again. Moody's, the other leading credit rating agency, rates the bank Asl, its second highest

in very good abape. Its lighting and semiconductor businesse which accounted for more than half of operating profit in 1997, are world class businesses. Despite price erosion of 8 per cent on its products and of boosting POC's share of a and, in the process, displacing where a tangle of providers callular phone market domi- one of the leading callular favours handsets that can an unsurprising drop in sales to the Asia-Pacific region, net switch between regional and profit surged 36.2 per cent in the first half to Fil.57bn. PCC's manufacturars. The mobile phone market is national networks. growing at a rate of about 50 Some observers doubt that loss aside, Philips has already per cent a year, suggesting PCC will ever make the big achieved its target of a 24 per PCC makes callular, fixed- there is ample room for savvy line and cordises handsets as newcomers. However, Marc its threshold in 1999, as Philips The issue facing Philips well as pagers and answering Langeveld, an analyst at Geris predicting, how it will respond to PCC's matchines. In little more than man investment bank Metaler, "They will have a hell of a troubles. If Mr Schwartsenhow it will respond to PCC's

nated by a formidable trio -Motorols, Ericsson and Nokia and countaing price erosion

two years - Philips began has garnered nearly 7 per cent of the global telecoms markst, thanks partly to Lucent's input at PCC.

But it still has a long way to Ericson in its launch of dual its own in 1996 - the company Mr McTighe was allowed only 10 months to get it right since PCC (which is 80 per

operations last October. His go to reach its goal of a 10 per mode handsets," Mr Langeveld successor, Thom Schwartsen oant market share (including says, These are vital in the burg, faces the daunting task fixed-wire handsets) by 2000 fast-growing American market,

Avesta Sheffield to cut 1,000

jobs as metal prices collapse

Although the restructuring

plan will not be completed for

three months, officials warned

that there could be significant

switched from Sheffield to

predicted that the group's Panteg steel plant in north Wales

Mr Pettifor confirmed the

group was considering the dis-

cent of the total workforce.
Senior executives blamed
weak demand and excessive
costs for the overhaul, which
old divisional structure, repla-

cing it with nine new business

The move marks the latest much attempt to improve profitability at the Anglo-Swedish company — formed by the 1992 first quarter losses of SKr324m cent over the past year, closed

Asahi Breweries plans shake-up

Degefors in central Sweden.

could be shut down.

steel operations.

with British Steel's eminious tax profits of SKr186m for the

job losses in the UK, as heat aries and falling prices for treatment of plates is being both raw materials and fin-

Some industry analysts also Avesta Sheffield has seen predicted that the group's Pannickel prices fall to an 11-year

machines. In little more than man investment bank Metzler, estimates that PCC would making GSM digital phones on have to grow by 200 per cent a year to catch up with the top

first three months of 1997.

The results, achieved on sales down from SKr4.92bn to

SKr4.45bn, were undermined

In the past six months

stainless steel prices have

fallen from 2.1997 peak of

DM8.27 (\$1.80) per kg to DM2.60

by a 5 per cent decline in deliv-

ished products.

job to reach the 10 per cent bury does not succeed in whipthey are targeting," says Corneille Conwenberg, an analyst at ABN-Ango in Amsterdam. The business will need about or Motorola, or quit the business years to achieve decent ness altogether. This would be margine because it entered the less painful than the Grundig market too late," he adds.

The short-term outlook has been darkened by delays in another "bleeder", his term for introducing fixed-line and cel- a poorly performing unit.

This announcement appears as a matter of record only

experience and Mr Boonstra

would not hesitate to sell off

ping product development into

shape, Philips might team up with a rival, such as Siemens

Zamil Industrial Investment Company







SR 532,800,000

(US\$ 142,080,000)

Private placement and Conversion to Joint Stock Company

Financial Advisor

البنك السعودى العالمي المحدود Saudi International Bank AL-BANK AL-SAUDI AL-ALAMI LIMITED

London

New York

June 1998

lannesmann clear to lift Oliman stake

nd Toblas Bock in Bonn

The Italian government yesterday cleared the way for Mannesmann, the German conglomerate, to almost double its stake in Olivetti's fast growing cellular and fixed-line telecommunications businesses.

Olivetti confirmed that the Ministry of Communications had expressed a "positive view" on the German company's plans to increase its stake in Oliman, the comtel cellular telephone business and the Infostrada Mannesmann last year

paid L1,100bn (\$620m) for a 25 per cent stake in Oliman in what was seen as the first significant step in Olivetti's recovery strategy. The German group also agreed to acquire a further 24.9 per cent stake for L1,250bn by March 2000.

welcomed the decision, say-

pany that controls the Omniiits Oliman stake to 49.9 per cent earlier than expected. "Originally, it was planned

for us to buy the second tranche at the latest in March 2000. Now things will go quicker," it said. The group declined to say when it would buy the stake, but it is expected that the two companies will meet this week to seal the deal.

Mannesmann says it will finance the latest stake pur-Mannesmann yesterday chase from the DM3bn raised through a capital increase earlier this year. That fund-

raising was earmarked for European expansion. Mannesmann's telecoms

divisions - Mannesmann Arcor for its fixed-line business and Mannesmann Mobilfunk for mobile phones have been among the most successful operators in Germany's newly liberalised telecommunications market, with combined sales of DM4.12bn (\$3.3bn) in the first half of 1990.

Mannesmann Arcor yesterday also said it would cut prices for long-distance calls

by up to 35 per cent in the 2 per cent in early trading latest strike in Germany's This followed a 3.7 per cent increasingly vicious price war. It will also introduce services such as personal telephone numbers that customers can keep for life.

Meanwhile in Italy, Olivetti's shares have surged on the Milan stock exchange on Omnitel's spectacular growth and the anticipation that Mannesmann would increase its stake in Oliman.

The shares continued their rise yesterday in a depressed market, climbing more than

rise on Tuesday to L4,275. Olivetti shares were trading as low as L600 at the height of the company's financial crisis two years ago.

Omnitel last week said it had attracted 500,000 new subscribers last month. bringing the total to more than 4.4m since the cellular telephone venture started in

The company is now the fourth largest GSM cellular operator in Europe.

Celsius looks to catch the defence consolidation wave

Chief executive admits Swedish group needs extensive surgery in order to improve its disappointing returns, writes Tim Burt

defence group, is con-Sidering a radical overhaul of its military equipment division in a move prompted by the consolidation wave sweeping the European defence sector.

Senior executives at the partly-privatised group believe Celsius is too thinly spread - with eight different businesses in the defence division alone - and must reduce its exposure to lowmargin products and high risk contracts.

Lars Josefsson, the chief executive recruited last year from Ericsson, the telecommunications group, has told colleagues to prepare for the disposal, morger or withdrawal from some business

"Our product portfolio is for too wide, and we are stepping up the search for consolidation and restructuring opportunities," he says. "After this process is over, we may be left with no more than four defence busi-

His aim is to lift defence margins from a lowly 2 per cent to around 8 per cent. But he admits Celsius is unlikely to achieve that without some major surgery, particularly at a time when the Swedish government is seeking savings of SKr2bn (\$241m) a year in its SKr40bn defence budget.

The group has already identified areas ripe for consolidation by announcing plans to form a joint Nordic ammunition company with Patria Industries of Finland

Petronas, the Malaysian

state oil company, is consid-

ering a bid for Engen, the

biggest South African oil

group, which has interests in

With oil prices low, and

the South African currency

By Victor Mallet in Johannesburg

elsius, the Swedish and Raufoss of Norway. In recent weeks, moreover, it has signed a technologysharing deal covering conventional submarines France's state-run DCN ship-yard, and unveiled a missile oint venture with Daimler

Mr Josefsson. expresses disappointment at Celsius's returns, hints that such ventures will allow it to focus on core busines "We are certainly moving away from ammunition as a stand-alone unit, even if we actively support the Nordic joint venture.

While he is reluctant to name disposal candidates, he emphasises that the defence division will concentrate in future on naval systems, where it manufactures submarines and small warships, while expanding its service and maintenance activities from serospace to army and naval applications. That effort is likely to be

coupled by the group's withdrawal from non-core areas. Celsius officials say a divestment programme has been drawn up for parts of the "niche companies" division, which includes offshore equipment, engineering operations, shiprepair yards and real estate. Last year, those businesses reported a combined loss of SKr17m on sales of SKr1.12bn.

Celsius is also thought to be re-examining its presence in soveral other busine including explosives. Although it boasts leadingedge technology in civil

going a bout of weakness.

Petronas sees a tempting

opportunity to buy the 70

per cent of Engen it does not

share, compared with the

R31.50 it paid in 1996 for its

Engen at R4.1bn (\$654m).

Yesterday, Engen shares

current 30 per cent stake. A bid at R23 would value

It is expected to offer R23 a

aiready own.



tions from rocket propellants to mining - the business does not have the critical mass to become a significant profit contributor.

In spite of Mr Josefsson's restructuring efforts, questions still remain over whether a streamlined Celsius will be large enough to withstand consolidation pressures in the defence industry.

The Swedish government - which holds about 60 per cent of the group's voting rights and 25 per cent of the share capital - clearly believes that it may not be explosives - with applica- strong enough on its own. Petronas set to launch takeover bid for Engen

Africa's biggest fuel retailer,

has a refinery in Durban

and also controls 57.5 per

cent of Energy Africa, the

exploration and production

Energy Africa directors

are concerned about the

Petronas approach to Engen,

partly because they fear

their company will be

be ready to reduce its stake, Anders Sundström, industry minister, told Swedish reporters recently: "There are many exciting things for Celsius to do in Europe. Sweden's defence industry will die out if it ralies solely on the Swedish military."

The company's chief executive, who recently announced first-half profits up from SKr159m to SKr269m, says talk of extinction is premature. In Celsius's favour, he

points out that it has a strong exposure to common procurement programmes in

Engen, which is South because of weak oil prices. attract a substantial black africa's biggest fuel retailer. They are also protective of South African shareholder,

the only black-controlled

international oil exploration

and production group.

The Energy Africa board

was "reviewing the situation

with its financial advisers

Engen, which had previ-

N. M. Rothschild".

the company's position as said it would consider the

Hinting that the state would the Nordic region, dominated by a prospective SKriffbn contract for new submarines. And it boasts excellent technology in areas such as minesweeping systems and radar tracking

> he group also plans to cut its dependence on defence by expending its commercial aviation division. At the start of the decade. Celstus had little or no exposure to civil aviation. But it has since acquired a sizeable engine repair and overhaul division.

Compared with the modest

possible Petronas bid at g

Avmin, the minerals arm

of South Africa's Anglovani

issued a statement saying it group, said yesterday it retaining the remaining 10

would invest as much as

\$140m in the Chambishi

cobalt and acid plants and

the Nkana slag dumps that

board meeting today.

ously said it wanted to it has agreed to buy from R242m last time.

attract a substantial black Zambia Consolidated Copper

-Chambishi

per cent.

hold 90 per cent of the

operation once the deal is

concluded, with ZCCM

Avmin also announced a

fall in net earnings to R153m

in the year to June, from

east Asia led BolsWessanen

VNU, the Dutch publish-

ing group, surprised the

per cent rise in first-half

earnings stemming in part

from a large US acquisition.

extraordinary items jumped

from FI 176m to FI 242m (\$119m). World Directories, a

publisher of telephone and

professional directories

which VNU bought last

December, accounted for

Fl 35m of the increase. Sales

advanced 39 per cent to

The shares rose more than

5 per cent on the news and

Net earnings before

drop in 1998 net income

2 per cent margins in defence, this business has an operating margin of more than 7 per cent and last year made profits of SKr133m on sales of SKrl.82bn.

Mr Josefsson would like to grow aggressively by acqui sition in this area. And Celstus is also pursuing a num-ber of potential targets on the military side, including a consortium bid for Austrahan Defence Industries, the state-run defence group.

That is all well and good But even if he achieves the aim of doubling the size of the business - in revenue terms to SKr24bn a year -Celsius would still be a minnow against the likes of British Aerospace or Thomcon-CSF of France.

If the Swedish governmen is serious about supporting European defence consolida tion, it should probably encourage some of the larger defence manufacturers to take a stake in Calsius. That would certainly underpin the share price, which has fallen 17 per cent over the past three months to about SKr174, and help the group cut its high marketing and export sales costs.

To ensure a premium from bidder or larger partner, however, Celsius needs to restructure first. Mr Josefsson understands that and has begun the process. What remains to be seen, is whether he can complete the job before Celsius is overtaken by the tide of consolidation and is forced to negotiate from a position of

NEWS DIGEST

INSURANCE

Storebrand falls 17% after operating costs rise

Storebrand, Norway's largest insurer, yesterday blamed volatile equity trading and rising operating expenses for a 17 per cent fall in first-half profits. The insurance group, which rebuffed a NKr19bn (\$2.4bn) takeover bid from Christiania Bank earlier this year, said operating profits fell from NKr1.96bn to NKr1.62bn - even though combined life and non-life premiums and general insurance income rose from NKr14.8bn to NKr17.3bn. "Operating profits were affected by somewhat lower financial income in the second quarter and by higher insurance-related expenses, said Age Korsvold, chief executive.

Operating expenses rose from NKr12.8bn to NKr15.6bn, following increased costs incurred on financial assets and changes in life insurance reserves in the six months to June 30. That helped reduce profits for Storebrand Livsforsikring - the life arm and largest single ousiness - from NK1.71bn to NK1.32bn, in spite of premium income that rose 21 per cent to NKr5.02bn. Net financial income from insurance declined from NKr3.9bn to NKr3.87bn, while net-gains on securities fell to NKr765m, down from NKr1.03bn. Storebrand's shares fell NK1 to NKr54.

Mr Korsvold said the group had maintained its market share in non-life insurance. "At the same time, we have a general cost trend that we are coming to grips with - this will have a positive effect on both expenses and the efficiency of the organisation," he added. After allocating funds to policyholders, group profits rose from NKr534m to NKr585m, while earnings per share rose from NKr1.69 to NKr1.98. Tim Burt, Stockholm

RETAILING

Metro benefits from integration

Metro, Germany's biggest retailer, increased pre-tex profits 6.5 per cent to DM102m (\$57m) in the first half of this year as it began to benefit from the integration of big acquisitions made in 1997. Profits last year were depressed by restructuring and start-up costs linked to its European expansion after it bought Makro, the Dutch cash-and-carry group. Sales in the first half increased 62 per cent to DM42.6bn, illustrating the fruits of the new acquisitions. However, adjusted for changes in the group, the increase was 5.4 per cent. The proportion of sales from outside Germany rose to 36 per cent from 6 per cent before the expansion, underlining the extent to which Makro has enlarged Metro's reach across Europe. Metro said unadjusted pre-tax profits were DM102m, compared with DM94.8m. Graham Bowley, Frankfurt

BANKING

BNL sale to proceed

The privatisation of Banca Nazionale del Lavoro will go shead in October without a merger agreement with the Rome-based bank and the Banco di Napoli. BNL yester day confirmed that its three-year strategic plan did not envisage a merger with Banco di Napoli and that its stake in the bank was "purely financial". BNL holds 49 per cent of Banco di Napoli Holding - which controls 51.49 per cent of the bank - with INA, the insurer, holding 51 per cent. BNL was originally due to merge with Banco di Nap-oli shead of its privatisation but the plan-collapsed after-the Italian Treesury rejected a bid by INA to acquire the dominant core shareholding stake as part of the bank's privatisation. Instead, the Treasury announced earlier this month it would go ahead with the L7,000bn (\$3.94bn) flotation in October with about 50 per cent of the bank's shares to be offered to the public. About 20 per cent of the shares will go to strategic shareholders led by Banco Bilbao Vizcaya, whose bld for a 10 per cent stake has been accepted by the Treasury. BNL also said yesterday its first-half consolidated net profits rose to L82bn from L69bn in the first half of last year. Paul Betts, Milan

SHIPPING

AP Moller-Maersk hit by Asia

A. P. Möller-Maersk, the Danish shipping and energy group and world's leading container carrier, said yesterday the Asian financial crisis had held back earnings in some businesses, as it warned of further trouble ahead. Per Moller, senior vice-president, said the effect of too many loaded containers going to the US and Europe from Asia and too many empty containers going the other way had created fincreasing imbalances in the market and rising costs for repositioning empty units". The group did not break down figures for the container division. However, earnings after depreciation from the shipping activities - including container services, tankers, bulk shipping, offshore supply ressels, and offshore drilling - were up slightly to DKr1.09bn (\$159m) from 1.06bn. Most of this gain came from crude oil carriers, which improved, while results for supply vessels and drilling and floating production were flat; bulk carriers, gas carriers and product carriers reported lower earnings. Group turnover rose from DKr18.84bn to DKr21.63bn. Profits before gains on disposals and other items were down from DKr2.26bn from DKr2.49bn. Hilary Barnes, Copenhagen

LUXURY GOODS

Tag Heuer advances 5%

Tag Heuer, the Swiss luxury watch company, signalled yesterday that the impact of the Asia crisis on its business was less than feared. It reported a 5 per cent increase in first-half net income to SFr26.7m (\$18m) in spite of a 4 per cent drop in sales to SFr216.4m. In June the company's shares dropped sharply after it warned that first-half sales could be 10 per cent down. Operating income fell 22 per cent to SFr37.7m. The absence of special charges and lower interest and taxes, meant there was a slight increase in net income. William Hall, Zurich

and stock markets under- rose 37 per cent to R19.90. undervalued in the deal

The SKF Group, operating in 130 countries, is the world leader in rolling bearings.

Report on operations for the six months ended June 30, 1998.

SKF's consolidated income, after financial income and expense, in the first half of 1998 amounted to SEK 817 m, compared to SEK 1 103 m in the first half of 1997. Income in the second quarter of 1998 totalled SEK 351 m, compared with SEK 602 m in the second quarter of 1997, and SEK 466 m in the first quarter of this year,

Group sales during the first six months of 1998 amounted to SEK 19 171 m (18 747), an increase of 2 percent compared with first-half 1997 sales. Sales in the second quarter this year totalled SEK 9 695 m (9 883).

Earnings per share, after tax, amounted to SEK 4.30 (5.90).

Goteborg, July 15, 1998 Aktiebolaget SKF

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BolsWessanen down 18%

By Jameny Grey In Amsterdam

BolsWessanen, the Dutch food and beverage group, said yesterday it would focus on global dairy products following an 18 per cent drop in first-half profits caused by Asia's economic turmoil. High raw-material costs

and the impact of the Asian financial crisis, which squeezed margins, were blamed for the fall in net earnings from Fl 79.8m to Fl 65.4m (\$32.4m). Sales rose 12.2 per cent rise to F1 2.978bn.

In Amsterdam the shares closed down 60 cents to The company, soon to be renamed Wessanen, warned in June that first-half earn-

ings would be 15-20 per cent

said the company was looking at several options to become a global dairy comacquisition in the US or Europe, a merger, or even the sale of BolsWessanen. The goal is there. How we get there is less important," Mr Zondervan said.

The company has been divesting its wine and spirits activities, culminating in the sale of Bols Royal Distilleries, which makes gin, vodka and liqueurs, to CVC, the venture capital group. This sale unwinds the 1993

merger with Wessanen, then an independent dairy products group. Proceeds from the disposals would total about FI 500m, the company

Georg Kofler, chairman,

said the deals would secure

Pro Sieben's position within

Germany's cluttered free-to-

business conditions in south- up to 24 per cent

FI 2.57bn.

closed at F182.10, up 3.9 per cent in a weak Amsterdam market. Analysts had pre dicted a net income gain of

Pro Sieben boosts film rights investment

By Frederick Stilchemen; In Berlin

Pro Sieben, the German media group, said yesterday it would invest about DM500m (\$278m) a year for

the foreseeable future in the purchase of film rights from US and domestic producers. The company, which owns Germany's most profitable television network, also said it would invest directly in the production of original German-language TV shows and cinema films.

The Munich-based company, which made an initial public offering of non-voting shares last year, started its investment strategy earlier

this month when it made commitments to several distributors for the broadcast share for the company's two rights to 1,150 films and channels, Pro 7 and Kabel 1. more than 1,000 hours of TV in the key 14 to 49-year-old series productions. age .hracket declined 0.4 per

The restocking of the cent to 18.7 per cent. library was welcomed by Performance at Pro 7 was analysis, who also approved of the decision to invest in domestic productions. High prices for US films and changing tastes in Germany have driven demand for domestically produced content, though analysis also as a talk show, was a further warn of changing estabnegative factor. lished programming formats

dented by big sporting events, such as the Winter Olympics and the football World Cup, which were broadcast by competing networks. The flop of some in-house productions, such

On the financial side, howbest half-stage result. Sales and pre-tax profits increased

first time in its history, while the group's non-broadcast activities, which include business communications, video and online services, saw turnover incréase 73 per

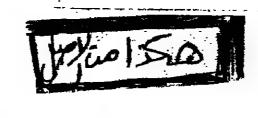
cent to DM22.9m

• Gruner + Jahr, the German newspaper and magazine publishing company. said yesterday it was targeting Asia and Russia for expansion, in spite of financial crises there. The company, majority-owned by the media group Bertelsmann, ever, Pro Sieben recorded its said it would open a subsidiary in Shanghai this year.

air television market. In the 33 per cent to DM163m. in Russia it has launched an first six mouths, market Kabel 1 made profits for the edition of Geo. its popular

Gerd Schulte-Hillen, chairman, said: "In terms of buying new companies or launching titles, the international markets offer more possibilities than the domestic market." - The company already

derives 55 per cent of turnover from outside Germany. In the year to June 30, sales rose 6.5 per cent to DM5_13hn. Operating profits advanced 12.6 per cent to DM777m. Mr Schulte-Hillen said net profits of DM781m had been boosted by the G+J already publishes a DM252m sale of two print car magazine in China, while plants in the US.



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Telstra up 17% but warns on competition

By Gwen Robinson In Symmy

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Maersk hit by Asia

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Telstra, the Australian tele as well as other multimedia communications group, said net profit jumped 17 per cent to A\$3bn (US\$1.73bn) in the US\$1bn investment in Comyear to June but warned cast of the US. Mr Bloumt that intensifying competi- said the latest talks between tional revenue streams.

Frank Blount, chief executive, also confirmed that Telstra was in "early active talks" with Microsoft and IBM of the US about joint ventures for its broad-band cable network.

The joint ventures, if agreed, would help Telstra the venture would not be counter criticism of its five- continued beyond 1999. year effort to develop a hybrid fibre-optic and coaxial cable network - at a cost of more than A\$3bn - in Australia's main cities. The cable network is used

almost exclusively to distribute Foxtel pay-television channels, a joint venture between Telstra and News

A deal with Microsoft and IBM would encompass internet and data transmissions applications, in a tie-up resembling Microsoft's tion would affect its tradi- Telstra and Microsoft took place earlier this month . Telstra was also consult-

ing other members of World-Partners - the global telecommunications alliance in which the Australian group recently purchased a 10 per cent stake - about AT&T's announcement in July that Telstra was partially pri-

vatised last November, when the government floated one-third of its shares at a 30 per cent premium to the instalment price of A\$1.95 per share. In yesterday's trading. Telstra partly paid shares fell 14 cents to A\$4.47 on heavy profit-taking.



time earnings on the previ-In its first full-year same ous year, when the group

undertook large writedowns A\$17.3bn. The strongest tion, Telstra said there was to prepare for privatisation.
an 86 per cent rise in head-A\$16.8bn, while total revenues grew 8.3 per cent to said Mr Blount.

growth areas included mobile telephony as well as internet and data services, cut in the year, reducing labour costs by nearly 8 per cent to A\$3.7bn. Total expenses, however, rose 4.7 per cent before abnormals to A 512 2011 As a result, the group

Almost 9,000 jobs had been

planned to increase cost-cutting this year, including further reductions in personnel, Mr Blount said. About 70 per cent of Telstra's costs were labour-related, he said. The new cuts would extend by a year Telstra's four-year programme to cut 25,500 staff. "It will now be 27,500 over five years," Mr Bloumt said. Mr Blount's remarks yes terday lifted the tension between Teistra and unions Workers belonging to the Communications, Electrical and Plumbing Union last night walked out in protest at the cuts. The CEPU said further stoppages were planned for next week and that up to 20,000 workers in New South Wales were expected to participate.

NEWS DIGEST

TELEVISION BROADCASTING

Advertising budget cuts behind 12% slide at TVB

Television Broadcasts, the biggest of Hong Kong's two terrestrial TV stations, yesterday reported a 12.24 per cent slide in interim profits, from HK\$205.2m to HK\$180.1m

The group attributed the fall to tighter advertising budgets and unfavourable currency movements in important regional markets. Little upturn is expected in the near future, said Run Run Shaw, executive chairman. "We expect results will continue to be constrained by the economic turnoil now affecting Hong Kong and the region. Anticipating a challenging business environment in Hong Kong for at least the near-term, we continue to look for

ways to reduce costs through improved efficiency."

The group's expansion in the satelite sector and in Taiwan is moving ahead. Earlier this year, its Galaxy project, which broadcasts two 24-hour-a-day channels across Asia, secured an uplink licence from the Hong Kong goverranent, and TVB expects to begin uplinking via the new facilities early next year.

Earnings per share slid 12.24 per cent, from 49 cents to HK\$0.43, and the interim dividend is to be held at HK\$0,20, Louise Luces, Hong Kong

MALAYSIAN POWER CONTRACTS

Tenaga seeks renegotiation

Tenaga Nasional, Malaysia's national power utility, confirmed it wanted to renegotiate contractually agreed payments for power with the country's independent producers to relieve pressure on its bottom line in the wake of the

regional financial crisis.

The news follows an announcement by Mahathir Mohamad, Malaysia's prime minister, giving his approval to the renegotiations if they should benefit both parties, Standard and Poor's, the US credit rating agency, says

Tenaga "has adequate cash to make its payments in full to lenders and independent power producers over the near term". The agency's intervention was provoked by negative comment in the Malaysian press after warnings about Tenaga's cashflow from Ahmad Tajuddin All, its executive

Mr Tajuddin called on producers to offer discounts on the power they sell, saying that if Tenaga "were to drown", the producers would suffer the same fate. The producers said they did not want to renegotiate power purchase agreements, but they were "willing to discuss solutions to assist Tenaga for the good of the industry". Shella McNutty, Kuala Lumpur

INDIA

Petronas in LPG venture

India's Cabinet has approved a plan by the state-owned Indian Oil Corporation and Petronas, Malaysia's state oil company, to form a joint venture to import and distribute Iliquefied petroleum gas in eastern India. Each pertner will have 50 per cent of the \$47m facility, which will be set up in Haldia, in West Bengal.

Some 4m people in India are waiting for LPG connections and the backlog is not expected to be cleared until 2001. Amy Louise Kazmin, New Delhi

Nissan Diesel looks at Domestic operations extending lay-offs

By Alexandra Harney In Tokyo

Nissan Diesel, the troubled subsidiary of Nissan, Japan's second largest carmaker, is considering extending lay-offs of factory workers this autumn to reduce high inventory levels amid deteriorating conditions in the domestic truck market. It would be the second

time this summer the group has taken the step - musual in Japan - of lengthening holidays. Shares in the group fell 3.14 per cent, or Y9, to Y278 on the news.

Employees at three factotake six axtra days' leave between now and October. The new policy may require employ about 4,500 in total.

"We anticipate that some

point to estimate how many workers will actually be involved," the company said. The decision to grant temporary leave - unusual in

Japan - was an attempt to reduce high inventory levels, the company said. However, analysis said conditions in the truck market would make this difficult, as the group's inventory was the highest in the industry. Warburg Dillon Read estimates Nissan has nine months' inventory on its

ries outside Tokyo are to and four at Hino and Isuxu. administrative expenses, and Analysts said Nissan, which depended on orders from construction compamore leave to be taken later nies, had overestimated in the year. The factories in demand, which, according to Ageo, Konosu and Gunma Salomon Smith Barney, is at the government incresses its

come out with negative forecasts for this year, their expectations were still too optimistic given the current environment for capital spending," said Peter Boardman, analyst at Warburg Dilion Read in Tokyo.

Nissan, which reported a Y1.3bn (\$8.9m) loss in the year ended in March, has been cutting costs in other arees as part of a restructure ing launched earlier this year. It sims for cost reductions of Y110bn by 2000 lots, compared with two through revision of compo-months at Mitsubishi Motors nent purchases, cuts in consolidation of offices.

Analysts welcomed the cuts, but said slow sales would hinder plans to reduce inventory. "The only hope is its lowest for 20 years. public works spending, Truckmakers have been which would raise compapeople will not take the squeezed as builders have nies' capital spending this

hold back Pasminco

The weakening of the Australian dollar and stronger zinc prices lifted profit-ability at the overseas operations of Pasminco, the world's largest zinc producer, in the year to June.

The Melbourne-based mining company said lower production volumes and higher costs in its domestic activities held back total earnings. but the current year had started strongly, with the group's new Century Zinc mine in Queensland set for completion ahead of schedule and under budget.

(US\$36.5m), including an year." after-tax abnormal gain of Pasminco's Budel zinc higher production volumes operations in the Nether- are expected to lift Pasleave when they are saked,... cut back canttal spending. ... year, said Mr. Bospinsan. ... figure of A\$84.7m, however, 1998-99. A refinery expansion. US\$562 a tonne.

abnormal loss of A\$5.3m. Full-year sales volumes were maintained in Asia, but the region's economic difficulties resulted in lower metal premiums. However, the operating performance of the mining division was dis-

art, managing director. Pretax profit at the company's Australian operations fell from A\$68m to A\$6.6m because of production prob-"The past year was a tough one for us," Mr Stewart said. "Our operating performance was below poten-

appointing, said David Stew-

Net profit in the year fell tial, but we are positioned to 2.2 per cent to A\$63.3m do better in the current The continuing weakness A\$23.7m from a reduction in of the Australian dollar, environmental provisions at lower domestic costs and

increase zinc output and lower unit costs, the company said. Pasminco has also lowered

the capital costs of the Century project from \$888m to \$850m and is expecting the first ore deliveries to the mill in the 1999 third quarter, three months earlier than acheduled . Analysts said Pasminco

had made strenuous efforts to diversify its markets from their traditional Asian focus. Lower lead prices and production volumes, however. had pushed up the company's break-even zinc price the key measure of competitiveness - from US\$934 a

tonne to US\$998. In the year, the average realised zinc price rose 6 per cant to US\$1,192 per tonne, contributing A\$28m to earnings. The realised lead price, lands. The previous year's minco's performance in however, fell 22 per cant to

ADVERTISEMENT



SOUTH AFRICAN RESERVE BANK

South African economy suppressed by international financial turmoil

Extracts from address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-eighth Ordinary General Meeting of Shareholders of the Bank on 25 August 1998

The South African economy, which is rapidly being integrated into the evolving interdependent worldwide system of markets, could not escape all of the artwesse consequences of the developments in East Asia. For a smaller economy such as South Africa, the choice is straightforward – either to share in the major benefits, the choice is straightforward – either to share in the major benefits, and the proposite of the violation. straightforward — either to share in the major benefits, but then also in the periodic adversities, of the global financial integration process, or to insulate the economy from the rest of the world, and be dependent on the limited resources and opportunities available in the country for its own economic development.

Initially, when the problems started to develop in Thailand in June 1997, South Africa was left unacathed. A very short-lived disruption was experienced in the South African financial markets in October 1997 as the crisis spread in other countries beyond the East Asian region. It

African financial markets in October 1997 as the class spead to other countries beyond the East Asian region. It was only since May 1998 that South Africa experienced the full adverse impact of the East Asian problem.

The South African banking system fortunately remained sound and in good health, despite the major turbulences in the financial markets. It is important, however, that in addition to sound macroeconomic policies, the internationally accepted Beale Committee's basic rules and core principles for financial and risk management, as endorsed by the Registrar of Banks, be adhered to.

be adhered to.

In light of the experience of the past few months, the South African Reserve Bank lends its support to efforts initiated at the international level to promote greater stability in the global financial environment it is extremely difficult for any one of the smaller countries of the world to protect itself unilaterally against the viciositudes of the evolving integrated world financial market system.

Stable basis for future economic expansion One of the major short-term objectives of macroeconomic policy in 1997 was to establish a stable basis for an expected new phase of more rapid economic expansion. This goal was to an important extent achieved by the end of 1997, Indeed, by the first quarter of 1996, a parmising expansion in the main components of gross domestic expenditure indicated that the accovery phase might already have begun.

Surplus on overall balance of payments
A relatively small current account deficit of RS,8 billion in 1997 was
more than offset by a net inflow of capital of no less than R20,2 billion.
The country's net gold and foreign exchange reserves accordingly
increased by R11,4 billion from 31 December 1996 to the end of 1997.
The overall balance of payments position continued to improve even
further in the first quarter of 1998 when a large net capital inflow of
R11,2 billion acce than covered a small current account deficit of only
R2,5 billion. A further R8,7 billion was thenelose added to the country's
net gold and foreign exchange reserves. By the end of March 1998, the

net gold and foreign exchange reserves. By the end of Manch 1998, the grost gold and foreign exchange reserves. By the end of Manch 1998, the grost gold and foreign exchange reserves held by the Reserve Bank and private banking institutions together amounted to R45 billion, or the equivalent of the value of three months' imports of goods and services. The overall balance of payments surplus created an oversupply of reign exchange in the market, and called for continuous intervention by the Reserve Bank to prevent an appreciation of the rand. The Bank's net gold and foreign exchange reserves accordingly increased by R122 billion over the period of fifteen months. The intervention by

And the second s

the Bank ensured a relatively stable exchange rate. In nominal texms, the average weighted value of the rand measured against the currencies of South Africa's major trading partners declined on balance by only 3,1 per cent from 31 December 1996 up to 31 March 1998.

Subdued rate of inflation Last year was the fifth year in aucression that inflation in South Africa remained below the If per cent level. The average rate of increase in 1997 in the consumer price index was 8,6 per cent, and is production prices 7,1 per cent. Inflation declined further during the first few months of 1998. Measured over a twelve-month

months of 1998. Measured over a twelve-month period, consumer price inflation declined to 5.0 per cent in April 1998, and the all-goods production price inflation to 2.4 per cent in May 1998.

These lower rates of inflation were achieved despite the continuing expansion at relatively high rates in the money stopply and in bank credit. Throughout the period 1997 and the first quarter of 1998, the M3 money supply expanded at an annual rate of about 17 per cent.

The rate of increase in bank credit extended to the private sector, being the main source of money creation, likewise remained excessively high. There was some decline from a rate of growth of 7 per cent at the beginning of 1997 to about 14 per cent in the first few Typer cent at the beginning of 1997 to about 14 per cent in the first few months of 1998, but even this lower rate of growth did not provide reason for complacency. The high rates of increase in the money supply and in bank credit extension over recent years were at least partly related to the almost explosive increases in the turnovers in the

party respect to the amobe expresses materials in the intervence of the major financial markets.

Through its intervention in the foreign exchange market in 1997 and the first quarter of 1998 the Reserve Bank itself contributed to an easing of domestic liquidity conditions. Market interest rates consequently tended downwards throughout most of 1997 and during the first first manutis of 1998. The Reserve Bank gave recognition to the me that the underlying market conditions and reduced Bank rale from 17 to 16 per cent in October 1997, and further to 15 per cent in October 1997, and further to 15 per cent in March 1998 with the introduction of the new, more flexible system of

March 1996 with the introduction of the new, more flexible system of repurchase transactions in terms of which banks tender for central bank accommodation on a daily bank.

Government continued with its medium-term programme of reducing the deficit on the Budget. During the fiscal year 1997/98 the deficit equalled 4,2 per cent of gross domestic product. The Budget for 1998/99 also provides for a further reduction of the deficit to 3,5 per cent of gross domestic product.

Major disturbances since May 1998

Ý

The hopeful signs of an imminent recovery in economic conditions in The hopeful signs of an imminent recovery in economic conditions in the first quarter of 1998 were suddenly dashed in May 1998 when the net inflow from abroad of portfolio investment in South African bonds was shruptly reversed. After investing R16.3 billion in South African bonds charing the first four months of 1998, foreign investors reduced their holdings of bonds by R3.0 billion in May, by R4.0 billion in June and by a further R5.4 billion in July.

Nothing of substance had, however, changed in the fundamental demostic accounts eithering from April to May 1998. The unconstituted

domestic economic situation from April to May 1998. The unexpected Full test available on website http://www.resbank.co.za

And the state of t

reversal of the inflow of foreign portfolio investment through the Bond Euchange must therefore be linked to a reassessment made at that time by international found managers of their investment exposures in many countries, particularly in emerging markets.

The accommodation of large outflows of foreign funds that resulted from the disinvestment from the bond market, created a new situation in the South African financial markets that demanded major adjustments prices of government bonds declined as yields increased sharply; the decline in the supply of foreign exchange exerted downward pressure on the external value of the rand; the outflow of funds drained liquidity from the domestic banking sector; and the declining trend in short-term interest rates was reversed and the rate on repurchase transactions moved from 14,79 per cent on 11 May to 20,38 per cent on 19 June 1998.

The adverse developments in the financial markets, triggered by

The adverse developments in the financial mariety, triggered by the sharp contraction in the inflow of overall portfolio foreign investment in May 1998, entend a second phase when changed supectations regarding the exchange rate of the rand began to have adverse effects on short-term international capital movements. The

adverse effects on short-term international capital movements. The common and well-known "leads and lags" in foreign payments and receipts once again moved against South Africa, and switching took place from foreign sources of financing to domestic sources.

Recent turnoil in the financial markets, which has not yet settled down, hold distinct disadvantages for the domestic economic altuation. After the dissurbances of the past three months, the financial

intation, After the discurrences of the past mice amounts, the imagical fination can now be summarised as follows:

The exchange rate of the rand, measured on a trade-weighted basis against a basket of the currencies of South Africa's major trading permens, has depreciated by 2L1 per cant from 31 December 1997.

pertners, has depreciated by what per up to 18 August 1998.

The yield curve has moved distinctly upwards across the whole spectrum of maturities. The prime overdraft rate of banking institutions has risen to 24 per cent, up 5 % percentage points from

the level in April 1998.

There are early signs of mounting inflationary pressures resulting from the recent depreciation of the rand. Measured over a twelve-month period, the rate of increase in consumer prices so far rose only marginally from 5.0 per cent in April 1998 to 5.2 per cent in June. Inflation in production prices core from 2.3 per cent in March 1998 to 2.8 per cent in lune. These changes in financial conditions have already had a negative

These changes in financial conditions have already had a negative impact on real economic activity.

Growth in real gross domestic product in the second quarter of 1998 slowed down further from the already low level of only 's per cent activeved in the first quarter of 1998.

Growth in consumer demand in both the private and the public sectors lost some of the memeratum experienced in the first quarter.

Although the deficit on the current occount of the balance of payments declined from a seasonally adjusted armualised rate of R8.6 billion in the first quarter of 1998 to R5.5 billion in the second quarter, the overall balance of payments weakened because of a substantial decline in the net capital inflow from R11,2 billion in the list quarter to R4.3 billion in the second quarter.

Against these negative developments it should be noted, however, that the net capital inflow of R4.3 billion in the second quarter still exceeded the unadjusted current account deficit of R2.1 billion. The net gold and foreign exchange reserves consequently increased by a

excessed me unacquested current account dener to the content tree and foreign exchange reserves consequently increased by a further R2.2 billion. Additional drawings made by the Reserve Bank and the private banks on foreign credit facilities enabled the consolidated banking sector to increase its total gross foreign reserves. by R13.3 billion in the second quarter to reach a total of R88.3 billion at the end of June 1998, that is, to a level sufficient to cover the value

of four months' imports.

There are always some advantages in a depreciation of the rand for exporters, and for local manufacturers competing with imports. These benefits will, however, only be dutable if the local cost of production in South Africa does not rise quickly in the wake of inevitable price nents of imported goods that normally follow a depreciation.

Implications for mometary policy

As an 1996, monetary policy had to introduce quick and decisive changes to address the consequences of the turnoil in the foreign exchange number. With rather rigid fiscal and other macroeconomic policies that cannot easily be adjusted in the short term, the burden of restoring financial stability fell heavily on monetary policy. The already depressed domestic contonuc situation that is now continuing into 1998 made this task even more difficult.

1998 made this task even more difficult. With the sodden decline in the total inflow of capital since May

1998 and the reduction in the supply of foreign currency, three macroeconomic market adjustments could not be avoided: The exchange rate of the rand had to depreciate. The domestic banking system had to lose some liquidity.
 Domestic interest rates had to rise to higher levels in response to the capital outflows.

In line with its normal responsibilities, the Reserve Bank intervened in the financial markets to ensure orderly adjustments processes, but never to prevent the above essential changes from taking place. After having absorbed a substantial amount of foreign exchange in 1997 and in the first four months of 1998, when residents were pouring large according to the first four months of 1998, when residents were pouring large according to the first four months of 1998, when residents were pouring to the first four months of 1998, when residents were pouring to the first four months of 1998, when residents were pouring to the first four months of 1998, when residents were pouring to the first four months of 1998, when residents were pour months of 1998, when the 1998 were pour months of 1998 wer residents were pouring large amounts of investments into the country, the Bank was obliged to sell some of these dollars back into the market in May 1998 when many non-residents wanted to take out As on previous occasions, the Bank also decided to use its forward

book once again in order to provide in the increased demand for mend/dollar hedging from South African residents with uncovered positions in foreign exchange, and foreign investors with uncovered rand positions. The relevant alternative which had to be considered was to accept a much larger outflow of capital, more pressure on the exchange rate, and even higher interest rates in South Africa.

In line with its policy of transparency, the Reserve Bank regularly ublishes details of its operations in the forward foreign exchange market. It should be noted, however, that an increase in the forward market, it should be noted, however, that an increase in the forward book of the Reserve Bank does not necessarily indicate an increase in South Africa's overall commitment to make foreign payments. It indicates to an important extent only a transfer from the private sector to the Reserve Bank of the exchange rate exposure in respect of resisting halmon of payments, commitments.

esting balance of payments commitments. In the longer lette, the Bank will continue with its policy to reduce

in the longer term, the Bank will continue with its policy to reduce its role in both the spot and forward foreign exchange markets. This will, however, require further exchange control relaxations.

The authorities never considered any tightening of exchange control. It remains the view of the Reserve Bank that South Africa should continue with the programme of gradually removing the remaining exchange control restrictions, most of which apply to the outward investment of funds by South African residents.

Concluding remarks
The turbulences in the East Asian financial markets were transm to South Africa as part of a process of a worldwide contagon of economic problems. In the misung situation a number of existing structural deficiencies in the South African economy were once again exposed which are easily exploitable in an environment of rapidly growing worldwide financial integration. As recent experiences in a number of East Asian countries demonstrated, it is always essential but not necessarily sufficient to apply appropriate disciplined monetary and fiscal policles in the short term. Countries must, however, at the same time also implement where necessary the more painful processes of long-term structural economic adjustment.

As far as the Reserve Bank and the implementation of monetary policy is concerned, cognisance must be taken of the following structural weaknesses:

ructural weatenesses: Firstly, the rate of inflation in South Africa is still too high. Secondly, in a world of volatile capital movements and widely finitiating exchange rates, an asymmetrical exchange rate policy that allows for depreciation from time to time, but never for any appreciation of the rand, can no longer be defended. Like all other prices, the exchange rate of the rand must be allowed at times to decline, and at other times to rise.

 Lastly, it is important in this new world of integrated and liberalised financial markets that countries should allow and enable changing underlying market forces to function properly. In order to achieve this objective, it is not only necessary for the central bank to hold more foreign exchange reserves, but also for the private sector to own more liquid foreign assets. Only then will the premature pressure on the Reserve Bank to reduce its role in

the spot and forward fureign eachange markets make sense. It is understandable for South Africans to continuously exert pressure on the central bank to provide more money at lower interes rates. It is, however, not port of the privileges of central bankers to seek popularity by creating more money, especially not in a country with a relatively high rate of inflation. In the world of integrated financial markets, any individual country can, of course, choose the monetary policies it prefers. Global market forces will, however, ensure that each country reaps the economic results that its policies

In this highly competitive environment the South African Reserve Bank cannot afford to relax its vigil against inflation. It remains the task of the Bank, in adverse and in favourable circumstances, to continue with a policy that will preserve overall financial stability. This is, after all, the contribution that central bankers must make in all countries towards activing the overriding objective of sustamable higher economic growth and more job creation. Strict adherence to a monetary policy model based on changes in the more important financial aggregates provides the best strategy for the achievement of this objective.

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The state of the s

The second of th

estimated loss put at \$500m

By William Hall in Zurich

Credit Suisse First Boston, one of the biggest primary dealers in the Russian government bond market is believed to have lost close to \$500m as a result of the recent turmoil in Russia's financial markets and the SFrl.1bn (\$731m). Credit Sulassociated sell-off in other emerging markets.

Credit Suisse, CSFB's parent, took the unusual step yesterday of issuing the firsthalf profit figures for CSFB, a fortnight ahead of schedule, in a bid to quell speculation that it had been particularly hard hit by the latest setback in one of its most profitable and fastest grow-

There had been speculation CSFB had lost between \$1bn and \$2bn from its exposure to Russia, Richard Thornburgh, Credit Suisse chief financial officer, called

Leading carmakers planning

to invest heavily in Russia

used the opening of the

Moscow motor show yester-

long-term commitment to

developing the country's

emerged that some manufac-

more cautious in the short

term at a time of increasing

concern and uncertainty

executive of Fiat Auto, con-

build up to 150,000 cars a

Flat group's main car divi-

sion, said he remained "opti-

AC N. 123 123 124

U.S. \$7,000,000

U.S. \$217,000,000

U.S. \$176,000,000

Dated Notes

Interest Period

Interest Amount dus Underted Nove per U.S. \$ 10,000 Note

per U.S. \$250,000 Note

for the 1998 financial year of NLG

IPO Box 410, Mt. 1180 AK Amstelveent.

var sendalen Konjuktuke Soleti

Probins August 26, 1988

NLG 280

Dated Notes per U.S. \$ 10,000 Note per U.S. \$250,000 Note U.S. \$7,148,44

Undated Floating Rate Notes

\$800m joint venture to ners.

over big projects in Russia.

But strong signs have grow."

motor industry.

these estimates "complete on the size of the losses and nonsense" and said that the decision to release CSFB's results early was to help the market quantify the impact on CSFB. CSFB increased first-half

net profit, before minority interests, by 24 per cent, to sse said that "since this date, market difficulties globally, but notably in Russia, where CSFB has significant activities, have reduced this performance to an estimated year-to-date unaudited net profit (pre-minority interests) of approximately \$500m (SFr752m) at the close of

business on August 25". The estimated result reflects a market adjustment to the carrying value of CSFB's exposure to the Russian market, based on the government's restructuring announcement. Mr Thornburgh declined to speculate

believed the car market

He said Pist viewed its

would continue to expand.

Russian joint venture not as

a "bet", but as a medium-

term investment. "For the

goods during difficult eco-nomic times and the market

still has significant room to

By contrast, Ford's plan to

Russky Dizel near St Peters-

bury appear to have slowed.

A Ford official said negoti-

ations were continuing and

Renault, which announced

the US group had still

day to reaffirm their Russians, cars are shelter

turers have become much build cars and vans with

Roberto Testore, chief the project remained alive,

firmed the Italian group not finalised a formal busi-

would proceed with its ness plan with its local part-

year in Russia, in spite its own project to build cars

Commonwealth Bank Australia

exchangeable into Dated Floating Rate Notes

Floating Rate Dated Notes due February 1999

exchangeable into Undated Floating Rate Notes

Floating Rate Dated Notes due February 2000

exchangeable into Undated Floating Rate Notes

5.7475% per annum

5.625% per annum (LIMEAN 6.625%)

26th February 1999

U.S. \$7,304,11

Credit Suisse First Boston (Europe) Ltd.

Interim dividend

ordinary shares, NLG will be payable as from September 9, 1996

per depositary receipt for one ordinary share of NLG 2.00, less 25%

dividend tax, at the offices of ABN AMRO Bank N.V., MessPierson N.V.,

ING Bank N.V. and Kempen & Co N.V., in Amsterdam, the Netherlands

the metitutions at which the dividend sheets of their depository receipts

Copies of the interm statement can be obtained from the company

were deposited at the close of business at August 27, 1998.

(LIBOR 5.6876 + 0.06%)

27th August 1998 to but excluding

IN ITY, WITH the approva

of the current financial tur- in Russia in November 1997,

joint venture

but

CAR INDUSTRY FIAT, RENAULT, FORD HOLD OUT PROMISE

Carmakers reaffirm

said the group would give Julius Baer, said the losses half of 1998, compared with further information on its Russian activities on September 9 when it published its first-half results.

"easily manageble" given that Credit Suisse Group was expected to earn close to However, John Leonard of SFr4bn this year.

Estimated result reflects a market adjustment to carrying value of exposure to Russian market based on the government's restructuring

CSFB's first-half results.

were much better than those

of Warburg Dillon Read,

UBS's investment banking

division, which this week

reported net profits of

Warburg Dillon Read,

CSFB's

which has 12 per cent more

SFr11.9bn, earned 11.9 per

SFr812m for the period.

equity than

Salomon Brothers in London, said the combination of before the latest setback, the \$254m fall in CSFB's profits between the end of June 1998 and August 25, combined with an estimated normal monthly profit of around \$100m for CSFB, meant it was relatively easy to estimate that CSFB could have lost between \$350m and

the 21 per cent earned by on current evidence were CSFB before the latest set-However, the latest news

more risks than some of its In 1997 CSFB's assets in

eastern Europe and the Commonwealth of Independent States rose from SFr1.1bn to SFr12.9bn. Mr Thornburgh said these figures vastly overstated CSPB's real exposure since they included non-Russian securities and did not take into account any collateral or hedges through structured off-balestimated the real exposure was more like SFr1.7bn.

Analysts were unsurprised that CSFB's exposure is much higher than at UBS, which has estimated that its

Hans Kaufmann, of Bank cent on its equity in the first unrealised losses as a result of the Russian crisis are around SFr180m. However. Marcel Ospel, UBS chief executive, indicated this week that his bank had been from CSFB will increase con- actively reducing its "risk cerns that it has been taking appetite" in the first six months of 1998 and analysts will be seeking a similar reassurance from Credit Suisse at its first-half results

> Credit Suisse's shares, which have been one of the top performing bank shares this year, fell by nearly 5 per cent, to SFr284 vesterday. This compares with a peak

• ING Group, the Dutch banking and insurance company, will comment on its Russian exposure when it reports interim financial results today. ABN Amro, the Dutch bank, said last week its own exposure in Russia was less than \$50m.

HEDGE FUNDS YEAR'S GAINS OBLITERATED

bring about

and William Lewis in New York

A senior manager at an investment fund dedicated to Russia said yesterday: "In a year's time we're going to be one of only a few survivors." But be refused to be named, so unsure was he of his own

prophecy. Hedge funds with large exposures to the Russian market have seen huge gains made last year completely obliterated in the past week. Many funds look as though they may not survive into the New Year.

Nicola Meaden, a director at Tass, the hedge fund research group, said: "We are going to see a lot of hedge funds closing down

George Soros's group of investment funds said yes-terday it had lost up to \$2bn because of the Russian crisis, among the largest losses ever suffered by a hedge

Among those hardest hit appeared to be hedge funds which had leveraged their investments in GKOs. short-term Russian Treasury

High Risk Opportunities Hub Fund, a \$450m US-based hedge fund with substantial Russian holdings, was yesterday said to be in negotiations with financial groups regarding the realisation of investment gains and One equity fund manager

said: "The key to doing things properly in Russia is not to take ridiculous risks. To use leverage was ridiculous in a market like

this." Fund managers said a traditional hadging technique. of "shorting" the market and therefore benefiting from declines, is difficult in Russia because of a lack of suitable financial instruments.

Equity specialist funds have suffered. Hermitage:

about \$350m at the beginning of this week, down from a high of \$1bn last October -

Its main Hermitage fund returned 234 per cent last year and fell 60 per cent in the first six months of this. year, according to Tass.

Data from Morningstar, the Chicago-based consultancy, revealed that Lexington Troiks Dialog, which has 30 per cent of its assets in Russian securities, is 79 per cent down in the year to

Bronswick Capital Management, another specialist in Russian equity investing, now manages about \$125m in Russia, down from \$380m

Florian Fenner, a senior fund manger, said the group had suffered less than others because of a very limited exposure.. to companies backed by GKOs. "It's been a rollercoaster

ride but we are alive and kicking and we'll not be making margin calls."

The group's two main funds - Russia growth and its emerging markets trust -have fallen 73 per cent and 60 per cent since the beginning of the year respectively. The main Russian equity index has lost 76 per cent during the same period. Mark Mobius, head of

emerging market investment at Franklin Templeton, one of the world's largest emerging market investment funds, was highly critical yesterday of the Russian authorities. His \$70m Templeton Russian fund is 70 per cent invested in Russian

Arnab Banerji, chief investment officer of Foreign & Colonial Emerging Markets, played down the impact-on large US and UK institutional investors.

ever, were understood to have suffered from a relatively higher weighting in

СТОЛИЧНЫЙ СБЕРЕЖЕНИЙ long-term commitment agreed with the City of Moscow, its joint venture partner, to set up OAO Avioframos, a new manufac turing company. The city of Moscow controls Moskvich, the troubled carmaker based in the capital. The joint venture will build cars at the Repault and the city anthorities will invest \$420m

Economic week queues are set to become longer as crisis decome

when fully operational. However, a Renault official stressed no money had yet been disbursed. The

agreement calls for Renault to pay a first \$10m tranche in cash before the end of the year, to be matched by a similar contribution by the city authorities in the form of buildings and assets Fiat's joint venture agree-

in the project, which aims to

build 120,000 cars a year

one month after Fiat, said it remained committed to its ment with the Russian car manufacturer Gaz was The French company mistic" over the future of crossed an important thresh-

Moskvich site.

in February. The agreement involves the creation of a new company, Nizhegorod Motors, to produce a range

of saloons and estate cars. Under the original plans, production is due to start this year with the first 2,000 cars and annual output eventually rising to 150,000

Fist and Gez each own a signed during President 40 per cent stake in the new utive of GM Russia and a depressed Russian market, Boris Yeistin's visit to Rome venture with the European former head of Opel, con- he said.

Bank for Reconstruction and Development backing the operation with a 20 per cent

• General Motors and Lada. the debt-ridden Russian carmaker, are considering a joint venture to build a car specifically for the Russian market, writes John Grif-

David Herman, chief exec-

Moscow motor show that talks were under way. He said the venture, if finalised, would build at least

firmed yesterday at the

100,000 units a year of a car developed jointly with Lada at its Autovas plant at Togliatti, on the banks of the Volga. The car would have to sell at under \$10,000 if it were to be successful in the

one of the largest Russian

German investors, how-

COMPANIES & FINANCE: THE AMERICAS

Harnischfeger cuts workforce by further 16%

Harnischfeger Industries, the US supplier of equippapermaking industries, is axing a further 2,350 jobs cut costs and put its business back on track.

based group fell into the red expected to bring savings of chief executive, said the poor in the third quarter, amountable about \$110m. cing a bigger-than-expected \$38.6m loss and prompting its shares to dive \$4 to \$16% in early trading.

The latest job losses follow 750 redundancies at its or about 16 per cent of its Beloit papermaking workforce - in an effort to business. The cutting of 3,100 jobs reduces into the red in the third Harnischieger's payroll by one-lifth since the start of its July 31. came as the Milwaukee- 1997-8 financial year and is

The company said about

85 per cent of the redundancles should take effect by the end of 1998 and that it did not envisage any additional restructuring charges. Harnischfeger warned two

months ago that it would fall quarter, which ended on Yesterday, Jeffrey Grade, year ago to \$16.3m.

weakness" and that the job cuts were part of a plan to "aggressively reduce Harnischfeger's rate of spending and align expenses with the current low sales

Sales on the mining side were \$389m, against \$329m last time, but operating profits tumbled from \$44.3m a

while the operating result swung from a \$28m profit to a \$65.3m loss. There was a loss per share of 83 cents, gain from asset sales. compared with earnings of The company ha 63 cents a year ago. Yesterday's announce-

ment business saw a sharper

decline, as sales fell from

and and was hit by charges \$375m to \$164m year-on-year, related to the Indonesian turmoil. Restructuring costs led to a \$97.8m loss from continuing operations, shead of The company has also

seen the Texas-based Base family, known for its aggresments were the latest in a sive approach to investments, raise its stake in the

New York Times is still spreading the news

Consistency is the secret of success, writes John Gapper n Times Square, the for- Heat York Times

merly run-down area of Manhattan now filled with the headquarters of media companies and investment banks, there are few signs of economic depression. But the bad days are still remem bered at the New York

"New York is a boom-bust city," says Arthur Sulzber-ger Jr. the latest member of the Sulzberger family to take the helm of the New York Times Company. He stepped into his father's shoes as chairman last October at a propitious time in the cycle.

Despite falling circulation in the metropolis, the company has emerged well from the recession of the early 1990s. It now produces a sixsection colour daily newspaper from two new plants in New Jersey and Queens.

It decided to invest \$1bn in new facilities under a 10year plan drawn up in 1987. Just as significantly, the company had until recently nanaged to avoid the prevailing mood of scepticism about family-run media comnames. While others such as Dow Jones have been through crises of confidence,

it largely prospered. Under 46 year-old Mr Suizberger, and Russ Lewis, its chief executive, it has a renewed focus on newspapers, pruning 1900s diversifications such as an invest- to do, which paid off

A phare price and index indexed

New York Times S&P Composite

ment in a Florida golf resort

the 10-year plan appeared. The shares beat the S&P

Until last month, investors had responded enthusiastically. Although its A shares underperformed the S&P 500 by 61 per cent between 1987 and the start of last year they recovered as gains from

by 34 per cent between the start of last year and mid-July, rising from \$19 to \$40.50 as the Times expanded its north-east edition, and focused more effort on selling its national edition. Buoyant advertising demand coincided with a

growth in the newspaper's

canacity. "There were some

tough years, but I think

analysts now grant that

it was rather a wise thing

handsomely," says Mr Lewis. The shine was somewhat taken off this performance by the company's secondquarter results, which showed a slowing of advertising growth. The shares promptly gave up all their gains this year, falling to

Yet the Times shows no sign of abandoning its efforts to build a strong business around its flagship publication. Mr Lewis says it has gained from a number of years of consistency when other groups changed tack. The controlling stake of

the Ochs-Sulzbergers has helped, he says. "Part of the reason we were able to stay the course is family ownership belps us have constancy of purpose, not pay attention to every cry or quibble."

he strategy for the New York Times remains unflinching, despite circulation in the metropolitan area having, "ebbed and flowed" as Mr Lewis puts it, with a mobile population in the past five years. It has eschewed discount-

ing to hoost circulation, and the 60 cent price has led some New Yorkers to seek alternatives. But Mr Lewis insists: "If you give readers a quality product they are prepared to pay for it. Mr Sulzberger says its

problems are common to



Times Square: formerly called Longacre Square but renamed after the paper's Times Tower Heading

to "build a sustained, loyal readership without having to which the New York Times layer offer on offer, so you never get out of the cycle of dependency". The New York Times has

an advantage over other metropolitan papers in being able to sell nationally. It protect their flagship papers now makes 431,000 of its are unlikely to bid aggres-1.1m daily sales outside the sively against networks to New York market, and 50 per cent of advertising revenue is national.

Yet expanding the newspaper will not absorb the company's considerable free cash flow. The question of where to invest its cash has been occupying the company and Lazard Freres, its investment bank, for a year.

Given the history of US newspaper groups such as Knight-Ridder and Dow Jones, which diversified into financial and business information only to divest them,

there is no easy solution.

One New York Investment

such as the Boston Globe. acquired in 1998, are the only obvious targets. However, these rarely come on the market.

buy television stations, or European companies such as Reed Elsevier for information groups.

The New York Times owns eight television stations and two radio stations, and Mr Lewis says it could expand more in broadcasting. However, he says it is still pondaring its "larger inclinations" for acquisitions.

tion in future of some size. we would like the reaction from shareholders and analysts and customers to be 'Aha that makes sense, and one and one will make three

amount of diversification" but not too much, he says. "We are interested in growth, but not in taking inordinate risks. We have a good core business and there Newspaper groups whose is no need to bet main guiding principle is to a new strategy." is no need to bet the farm on

> VIRIDIAN GROUP PLC £150,000,000 Unsecured Loan Notes due 2003 of 47.4p each August 1998 to 14th Peterusry 1999 iusive the Bonds will carry Board will be (D.01893 on 15th

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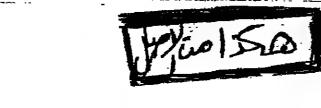
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MINING SHAREHOLDER DISCONTENT ABOUT VALUE OF INGWE DEAL MAY JEOPARDISE TAKEOVER

Billiton runs into final dividend difficulty

Billiton, the mining group under pressure as the worst performer in the FTSE 100 Index in the past year, has run into difficulties over its R2.97bm (\$450m) offer to gain full control of Ingwe of South Africa.

Some shareholders in Ingwe, the world's biggest thermal coal exporter, are unhappy about the company's decision not to pay a final dividend for the year to

dividend of between 60 cents are bonour-bound to vote in then trading at an all time lngwe at R30, said; "Since affairs, insisted: "In Billiand R1 to add to the R25 a favour of a scheme of low He calculated the Ingwe the market's fail, R25 looks ton's view it was always share being offered by Billi- arrangement at a meeting on minorities' interests were generous. People have no clear the offer was cum diviton, according to John September 14. However, a worth R30 a share. He said a problem with that But some dend. An independent subresearch at Deutsche Mor- Life, remains uncommitted gan Grenfell in Johannes- and its votes are vital At burg. This would have made. least 75 per cent of minority what seemed to some ana- shareholders must vote in logwe more attractive.

Two of ingwe's big share- roughly 20 per cent of these holders, Old Mutual and votes. Sanlam, were sounded out before the offer was made. At the time of the formal bid offer in July was 50 per cent both those institutions said above the Ingue price at the at HSBC Simpson McKle.

Loewen, director of mining third shareholder, Liberty lysts a modest price for favour of the scheme and Liberty Life accounts for

'Mr 'Loewen pointed' out that, although Billiton's nearly 15 per cent recently. They had been expecting a they would accept R25 and time, Ingwe shares were who also originally valued

fairer outcome would be for are annoyed about not get-Billiton to allow Ingwe to ting the R1 dividend from add dividends of R1 or R2 to Ingwe they expected." the R25 offer price.

He conceded, however,

that the Ingwe price was likely to fall to R15-R17 should the offer be rejected because share prices in South Africa had dropped by

Analysts stressed no one was accusing Billiton of impropriety, rather an error of emission. Even this could be excused because Billiton originally expected the deal to be completed earlier and the issue of Ingwe's dividend would then not have arisen. Marc Gonsalves, Billiton's senior manager, corporate Exchange.

In its results for the year

for losses as a result of the

early recognition. Some

the effects of early recogni-

committee of the Ingwe board, as well as Rand Merchant Bank, the independent adviser, concluded the offer

was fair and ressonable." Billiton's management is distillusioned London institutions that helped to contribute nearly £1bn just over a year ago when Billiton raised cash and was listed on the London Stock

COMMENT

Allied Carpets

Rotten apple or rotten culture? It is difficult to tell Alied Carpets what caused Allied Carpets' Share price and index interest accounting mishap. The had news for shareholders, who saw their shares fall 29 per cent yesterday, is that is not the worst of their problems. The trading outlook is none too bright either - and not susceptible to quick solutions. Rents on out-of-town sites are shooting up, consumer spirits are flagging and efficiency ratios are too low. The upshot is that 1998-99 profits are likely to be in the £10m-£13m range; a see

120 N-/4 Allied Carpeta FTSE General Jul 1996 97

year ago the forecast for 1997-98 was £19m-£20m. The company's response store openings and building returns through a changed product mix - makes sense. But with the market difficult and management credibility badly damaged, there is no burry to buy the shares - cheap though they are.

UK earnings

With the UK market whirling around, dizzy investors are desperately searching for orientation. But if they try the parnings outlook, they will find it far from fixed.

The forecast range is surprisingly wide: 0-6 per cent for this year and 6-13 per cent for next. This partly reflects the "top-down bottom-up" gap between equity strategists. analysts, more inclined to give companies the benefit of the doubt. There has also been a lag in downgrading 1999

But even the central scenario, that profits growth nearly halves to 4 per cent this year and then picks up to 6-8 per cent next, poses awkward questions. Why should earnings recover in 1999? Lower tax and an easier pound may help, but the main problem is margins: managements will have to cut costs rapidly to offset the threat to margins from slowing growth, especially in the UK and US.

The risk is not only that costs prove more stubborn, but also that the global slowdown is more severe. By itself, a price-earnings ratio of about 18 for 1999 does not seem to reflect the downside risks fully. Hence the dive for support from falling bond vields. At 51: ner cent or less for 10-year gilts, the p/e could rise to 20-25 times - a yield of 4-5 per cent without busting the average relationship between the two, The spag is that that link can be pretty volatile, reducing its

put Yardley in receivership

By David Blackwell

Yardley, the quintessentially English cosmetics company that supplies the Queen Mother with perfume, was put in the hands of receivers

Founded in 1770 in London, the company is most famous for the English Lavender brand that is still its best seller throughout the world. In spite of associations with Twiggy in the 1960s, and, more recently, with actress Helena Bonham Carter, it has always had a rather old-fashioned

A relaunch of the cosmetics range last year featured Linda Evangelista, the Canadian supermodel, in handcuffs, and was simed at attracting a more modern, international clientels. But the move failed to stem mounting losses on flat

The last reported figures for Old Bond Street Holding Company, Yardley's owner, show pre-tax losses of £9.2m on sales of £89m in 1996, up from losses of 22m previ-

Tony Thompson of KPMG, the receivers, said yesterday that the company's debts stood at about £120m (\$198m), "It was saddled with a massive debt burden that It simply could not service."

found for a brand with such a long and industrious history. "There is an enormous amount of goodwill, and we are very keen that this does

not slip away." Mr Thompson believed there were between 20 and 30 international companies where Yardley would be a good fit.

We expect to be speaking to the ultimate purchaser in the next three weeks," he said, but warned that he could not tell how long it might take to strike a final

is Wasserstein Perella Management Partners, the US investment bank. In 1990. Old Bond Street, in which Wasserstein Perella has an 88.5 per cent stake, bought Yardley from SmithKline Beecham for £110m.

At the time, Yardley had two factories and employed 1,600. Last March the company, which now has just 300 employees, said it would be closing the remaining factory in Basildon, Essex, and would be outsourcing its production in order to concentrate on the brand and distribution. .:

Mr Thompson said that the cometics industry was increasingly becoming an international business, and Yardley had had its hands

Debts of £120m | Allied shares fall 30% on return

By Bobert Wright

Shares in Allied Carpets, the carpet and furniture retailer, fell nearly 30 per cent to 53p yesterday as they were returned to trading after a six week suspension over accounting irregularities.

its inquiry into allegations that sales were systematically recognised too early by stores towards the end of accounting periods. The allegations led to the resignation of Steven Barber, Allied's senior operations manager, and David Pout, Allied said Mr Barber directed stores to recognise sales in the run up to its

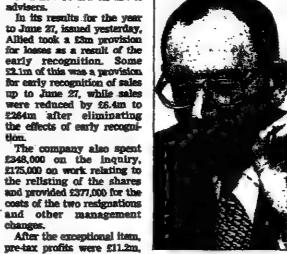
financial year-end before car-

tumers. The goods had been fully paid for in nearly all been fitted shortly after the Julian Lee, chairman, said

the company had decided, after legal advice, to pay Mr The return came as Allied Barber £156,000 (\$256,000) to prevent him from working announced its full-year results and the outcome of for competitors for a year. Mr Pout, who the inquiry discovered knew nothing about the irregularities, will receive \$221,000. There was concern among some analysts because the practice had continued for five years undetected by the

£348,000 on the inquiry, £175,000 on work relating to the relisting of the shares and provided £377,000 for the costs of the two resignations company's board, its auditor. and other management

After the exceptional item, pre-tax profits were £11.2m, against £16.7m on £256m man, said the company turnover last year.



Panel to end 'creeper' provision

The Takeover Panel is to abolish the so-called creeper provision in a move that will force shareholders to bid for a company if they want to increase their stake above 30

Under existing Takeover

Code rules chareholders with stakes between 30 per cent and 50 per cent are allowed to increase their stake in a company by. 1. per cent a year. This provision was but it also enables share-

paying a premium.
Alistair Defries, directorgeneral of the panel, said: "The provision was not intended to allow shareholders to creep to statutory control without making a bid."

Arthur Andersen, and by

advisers at the time of the

company's flotation two

years ago. Julian Lee, chair-

From today shareholders will not be allowed to increase their stake if they hold more than 30 per cent without the panel's permis-

Complaints about the cresper provision arose after Emerson Riectric's controdesigned to allow flexibility versial takeover for Astec, the electronic power smaly holders to continue to group. The US group started increase their stake until with a large stake in its tar-But he was confident that tied by financial constraints, they gain control without get and achieved control by

buying up to 1 per cent a year. Astec's minority share-holders failed this year in institutional investors, suptheir unprecedented High ported the decision earlier Court challenge to the take-

Shareholders normaily have to launch a bid when they acquire more than 29.9 per cent of a quoted comup to 49.9 per cent with the

Mr Defriez said the decision to remove the creeper -provision had been "sparked off by investors who felt it was appropriate to remedy

The Association of British this year to review the provi-

Mr Defriez offered some flexibility to investment trusts, which have been the main supporters of the provipany, but there are excep-sion. Because several trusts tions that allow them to own can be linked to the same fund manager, they they can fall foul of the definition of a "concert party" and therefore be unable to increase their stake in a company beyond 30 per cent. Mr Defries said the panel would

take individual circum-

Fitness firms speed ahead but some may have to peak

Scheherazade Daneshkhu tracks the growth in this leisure sector and assesses companies' staying power for the European course

rapidly in recent years next two years in Belgium, on a diet of unfulfilled Italy, Germany and the demand and healthy returns Netherlands. of more than 20 per cent.

exercise regime, once bitten, few companies find they can let the bug go. Despite ambitions expansion programmes in the UK, many are now stretching their interest to Vardon is a case in point

Two years ago it entered the German market earlier this market with the acquisition of Archer Leisure. By the end of last year it vowed to devote itself solely to health and fitness; last week it implemented the final step in that strategy by putting its Sea Life and London Dungeon attractions up for

Now the second largest bership after Whitbread's said this month it hoped to David Lloyd, it has already sold its bingo and holiday interests to invest in health

for £25.4m, it spent a further 222.4m last week on the Har- the development of its David bour Club. The purchase of Lloyd leisure clubs from five London's most expensive membership club enabled it with, the property entrepreneur, who is to help Vardon find sites in Europe with

he film (\$1.65m) fitness The company expects to industry has expanded open six clubs within the

Other UK-based companies Like most converts to an are already in Europe or are planning to be. Holmes Place, which floated on the main market in November, operates one club in Lisbon. Portugal, and is due to enter Switzerland next year. Fitness First, the mid-marketoperator, bought into the month by taking a 50 per cent stake in Fitness Company, the country's second largest fitness operator.

Whitbread, which has been scrutinising the European market for more than a year, is expected soon to open a club in Brussels and Stakis, the UK hotel and casinos group which operates the Livingwell chain. expand on the Continent.

The drive into Europe is taking place despite operators' insistence that there is After buying Cannons still plenty of scope for Sports and Leisure in June expension in the UK. expension in the UK.
Whitbread is accelerating

to eight clubs a year. Arguably it ignited investo also acquire the develop-ment expertise of the club's when it paid 2200m three rector of David Lloyd Lei-Granada Health and Fitness, former co-owner, Peter Beck- years ago to acquire the 13- sure. club business founded by David Lloyd, the former ten-



50 health clubs, says it

which has currently ruled Granada, which operates out investment in Europe.

That buoyancy is reflected nis player, in 1980 and believes the industry will in a healthy degree of corpowhich to roll out Harbour floated in 1993 for £70.4m. take much longer than the rate activity. Four fitness clubs. take much longer than the rate activity. Four fitness

ket to be in. All the clubs are to reach maturity. "It's a market within the past two achieving their financial targets which gives us the confidence to invest more," says to reach maturity. "It's a market within the past two very buoyant market and I years — Dragons Health don't see any sign of it slowing their financial targets which gives us the confidence to invest more," says Aim, while Holmes Place floated on the main market.

Pinnacle Leisure, which operates 10 clubs, is to float later this year in a placing expected to value the group at £70m.

member of a health club in the UK, according to broker.

marked more than £750m for not be as profitable as the investment in the sector UK's." over the next three years but Greig Middleton estimates that 12hn of investment is believes successful UK operneeded to meet current ators in Europe will be those membership nesse.

vousness in the market with a local operator and although talk of recession is avoid committing large brushed off by most opera- amounts of investment, the tors who argue that the strategy is not too risky and industry is recession-proof. won't take up too much Bruce Jones, leisure ana- management time."

convinced. "It is a lifestyle change but it is also an expensive activity and won't be immune from a downturn. We are already seeing some signs of pressure with companies offering sizeable discounts on joining fees."

lyst at Merrill Lynch, is less

This makes the lure of Europe all the more attrac tive. "There is a lot of poten tial in the UK but there is increased competition for sites which is in the process of making them more expen sive," says David O'Brien. smaller companies analyst at CSFB. "Europe is underdeveloped and pretty cheap so by going in now at the start, there is notential to be a leader in the Europe-wide

Harm Tegelaars, recentlyappointed chief executive of Vardon, concedes that a recession in the UK could upset the industry's growth forecasts. "Europe is counter-cyclical - it is at the beginning of the growth cycle. The health and fitness industry there is at least five years behind that of the UK and will accelerate more quickly. There are 300m people in Europe and we want to be in there when the more tabes off."

But there are dangers in trying to replicate the UK experience to other cultures. "We have always seen Europe as potentially interesting," says Mr Philpott. "But we have to be careful In the US, 10 per cent of to understand the differthe adult population is a ences - it's not necessarily a simple thing to go into compared with 5.5 per cent Europe. People spend their leisure time, particularly Greig Middleton, the stock- in the southern states, differently from over here Health and fitness opera- and there are signs that tors in the UK have ear- some of the markets may

Nick Batram, lefsure analyst at Greig Middleton, which take a low-risk There are signs of ner- approach. "If you can go in

NEWS DIGEST

INVESTMENT TRUSTS

Russian malaise knocks emerging market sector

Emerging market investment trusts fell sharply yesterday as negative sentiment towards developing country funds was intensified by political turmoil in Russia. Funds with high exposure to Russia and Latin America were hit heavily. Foreign & Colonial's Emerging Markets fund fell 5%p to 46p, while Murray Emerging Economies lost 3%p to 32%p. Among the larger funds, Templeton Emerging Markets closed off 6p at 711/sp.

F&C Emerging Markets, which is 64 per cent lower than its year-to-date high of 1281/sp last October, was hit by its 15 per cent of its assets allocated to Russian shares. Arnab Banerji, chief investment officer, said exposure to Russian shares and debt had been reduced, with 75 per cent of investments in treasury bill written off last week,

The average discount of the price to not asset value of emerging market funds has widened over the past three weeks from about 20 to 28 per cent, as investors have become increasingly risk-averse.

Fundamental Data, a database analysis group, said the average price of 23 global emerging funds fell 5 per cent, while the net asset value declined 1.5 per cent.

Russia's devaluation of the rouble weighed on sentiment, which worsened with the cabinet sacking. Analysts said the debt restructuring details were the last straw.

ENGINEERING

Berisford buys Aladdin Temp-Rite

Berisford, the kitchens and kitchen equipment group, has bought Aladdin Temp-Rite, the institutional catering supply division of Aladdin Industries of the US, for £41m (\$68m) cash. The acquisition continues Berlsford's strategy of expanding its food services operations. Welblit, its commercial kitchen equipment business, accounts for about 75 per cent of profits on 58 per cent of sales, with the balance made up by Magnet, its consumer kitchens and join-ery business. Jonathan Findler, finance director, said the acquisition bolstered Berisford's position as a supplier of kitchens to institutions. Aladdin Temp-Rite makes supporting equipment such as insulated trays and food re-hea It made a pre-tax profit before interest of \$7.3m last year on sales of \$84m.

Berisford also announced the £8.7m acquisition of Viscount Catering, a privately-owned manufacturer of com-mercial ranges, fryers and refrigeration equipment. Viscount made pre-tax profits before interest of £1.2m last year on turnover of £12.4m.

Mr Findler said the company could make about \$200m available for acquisitions allowing it to almost double its \$550m annual sales of food services equipment. Michael Peel

INSURANCE

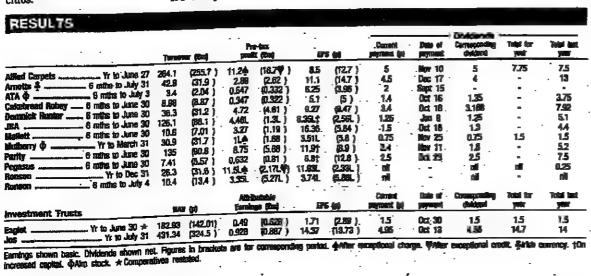
KKR clarifies Willis bid terms

Kohlberg Kravis Roberts, the US buy-out specialist, said yesterday it reserved the right to make its £951m (\$1.57bn) old for Willis Corroon, the insurance broker, unconditional in the next five days, with a lower acceptance limit of 50 per cent rather than 90 per cent. The move came amid continuing speculation of a counter-bid for Willis, following the agreed £1.25bn offer for Sedgwick by Marsh & McLennan on Tuesday. Aon. Marsh's main rival, is considered most likely to make a move. KKR has received acceptances for 64 per cent of Willis shares. Christopher Brown-Humes

media

Regulator looks at Pearson buy

The Director General of Fair Trading is inviting comment by September 10 on whether the proposed acquisition by Pearson, owner of the Financial Times, of Simon & Schus-ter, the education, business and professional and reference publishing divisions of the US media group Viacom,



TECHNOLOGY ELECTRONIC SHARE TRADING

Net deal aims to trap more trades

Dan Bögler reports their interest without fear of on a US high-tech dealing system hoping to attract investors with cheaper costs

From a 1,000-acre ranch near Durango, Colorado, once owned by Western novelist Louis L'Amour, two high-tech entrepreneurs plan to chal-lenge the might of the New York Stock Exchange.

In October Bill Lupien, a 56-year-old stock market veteran, and his partner Terry Rickard, who spent the 1980s building sonar systems to track Soviet submarines, will lounch OptiMark: an electronic share trading system billed as the biggest innovation in securities markets since the introduction

Mr Lupien's starting point is his belief that US investors, particularly small ones. get a bad deal. During his 17 years as a specialist on the floor of the Pacific Stock Exchange and five years running Instinct, one of the first computer-based trading systems (now owned by Reuters), Mr Lupien became convinced that today's trading practices are needlessly inefficient and costly.

"I was sitting with a friend of mine, a fund manager who wanted to buy 2m Intel shares," he says. "By the time he had parcelled the order out among various brokers, the shares were up

This so-called "market impact", together with the effect of delayed and missed trades and broker's commission, makes buying and selling shares very expensive. Plexus Group, an independent research firm, puts the cost at 101 basis points each way for large stocks and 449 basis points for small caps. In other words, a small company portfolio manager age point disadvantage vis-à-

vis an index-tracking fund. OptiMark, co-invented by the two men, aims to eliminate these problems. For a anonymously through an internet browser, so they

seeing prices move against them. Second, instead of entering a simple two-dimensional (price, size) order, they can input a sophisticated trading profile. The Intel buyer might be prepared to pay \$65 each for 2m shares, but \$85.50 if he

can get 3m and only \$84 for 500,000 shares. An investor rates each option by assigning it a preference between 1 (best) and 0. OptiMark's supercomputer then aggregates all the buying and selling profiles and performing billions or carea-lations in less than 1.5 secforming billions of calcu-

onds - matches them using

algorithms to produce the

trades possible at that time. Messrs Lupien and Rick ard believe this approach will unleash a huge amount of hidden liquidity by satisfying unfulfilled trading desire. US stock markets currently trade 1.3bn to 1.5bn shares a day. Mr Lupien puts the potential as high as 3bn-5bn, pointing out that in the past 30 years every reduction in dealing costs has led to an increase

Of course OptiMark will not trade everything all at once. It plans to start with 2,600 listed US equities under the wing of the Pacific

Lupien puts the potential as high as 3bn-5bn shares a day, pointing out that in the past 30 years every cut in dealing costs has increased volumes

Options Exchange will start using it for equity options and Nasdaq for its stocks from late 1999, International Europe, could be next. As a company, Optimark,

which employs 170 people. has been planning this launch ever since it received a patent for its technology last autumn. It has raised \$150m, backed by blue chip investors including venture capitalists General Atlantic Goldman Sachs. The money can disclose the full size of is funding Mr Lupien's one cent per share from both

Stock Exchange (PSE). If it ker/dealers, representing 70 works, the Chicago Board per cent of current stock market volume. So-called "gateway providers", including Thomson and Bloomberg, will take the service to markets, particularly in individual investors over the internet - an important difference from closed systems such as instinct.

hunch that OptiMark has a

better chance of catching on

if he gives away the whole

system - servers, routers.

access, software and training

- for free. That seems to be

working: OptiMark has

already signed up 160 fund

managers and 89 bro-

And just because Opti-Mark is free does not mean it is not a commercial venture. Although Mr Lupien hus already made a fortune - it is his ranch, after all the staff is being largely motivated through share options. Optiblark will get

70.71

25 Mz

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buyer and seller. At 100m shares a day and 250 trading days a year, that suggests revenues of \$500m. If it ensure it gets the best reaches 1bn - which Mr price." Rickard sees as entirely possible - sales could hit \$5bn. wonder investment banks are already lining up to take the company public.

OptiMark's arrival is not going unchallenged. The company has cleverly sidestepped opposition from brokers: even if a portfolio manager trades directly, he will still need to designate a broker for settlement and clearance, so the latter will still get a commission: Stock exchanges are another mat-Though OptiMark emphasises that it is not in competition with exchanges, those which have not adopted its technology worry that it will draw liquidity

away from them. Some US exchanges have thus voted down attempts by OptiMark to join their intermarket trading system, though the Securities and Exchange Commission is likely to reverse that. Dan Solidar, executive vice-president of the NYSE, the biggest exchange with the most to lose, says: "We are concerned that OptiMark will

Last month The Loyalty Group, which operates the scheme in Canada, was bought by Alliance Data Systems, a large US store card company.

Mr Mills plans to use the First Call; a ticketing comnputerised box office sys

tem, for £7.4m. "I'm as excited about this as when I started Air Miles. I think it's got more potential," he says. "In entertainment and sport we found two industries that were archaic in the way they marketed their products. Nobody was doing anything remotely sophisticated with inventory (seets),1

With the expected increase in digital broadcasting and internet use, if you're a controller of seats for that sort of product over the next five to 10 years I think there's an opportunity to build a very big business. He expects First Call's £45m (\$74m) annual sales to grow enfold in five years.

GROWING BUSINESS KEITH MILLS OF AIR MILES

First call for a high flyer

The ticket market is next stop for the travel entrepreneur, says Alison Maitland

London's Heathrow airport seems the appropriate place to meet Keith Mills, the man who dreamed up Air Miles. He has just flown in from Madrid, where he has been showing prospective French partners how Air Miles, 10 ates in Spain.

The airport is uncomfortably familiar territory for Mr Mile While commuting for two years between the UK and US, he carried out a survey of rest rooms in the vicinity to find which afforded the most space to change clothes. The Heathrow Hilton, where we meet in the coffee lounge, came

Mr Mills, 48, has transplanted the Air Miles idea not only to Spain but also the Netherlands, where 45 ner cent of households participate in the reward scheme. He made an abortive attempt to penetrate the US market, but was more successful in Canada, where 64 per cent of households collect Air Miles while shopping for goods and services.

capital gain to extend-hismarketing strategy to the entertainment, leisure and sports industries and make further acquisitions. Last December his group bought pany which owns the BOCS

Here is a chance to provide customers with a single point of access to all forms

Spotting earlier opportuni ties in seats was how Mr Mills built his private Air Miles International Group worth 260m-£90m - he says the exact value of the group cannot be known without selling its constituent busi-

Combined turnover of the operating companies was £180m before the Canadian sale, and about £105m after. As chairman and chief executive, he owns 47 per cent of the group.

He was not always a conscious entrepreneur. Thrown out of school at 15 as a nohoper with only a swimming certificate to his name, he began work in the advertising department of a group of

'Customer loyalty programmes didn't exist when we started Air Miles

newspapers. By 21, he wa advertising copy make-up manager at the Economist. He worked in marketing at the Financial Times and then in advertis-His taste for owning a

business and doing deals oaly emerged when he led a buy-out of the London office. of Nadler Larimer, a New York agency, in 1983.

The Air Miles idea came to him in 1986. "Customer loyalty programmes didn't exist when

we started Air Miles," he recalls. "Airlines and hotels didn't understand the opportunity they had to sell their unsold capacity to new markets, and companies didn't realise they could achieve incredible economies of scale and benefits by working the air miles will be of little

Getting the idea off the use in his next edventure, a

financial risk. In 1987 he took it to British Airways and formed a joint venture with the airline. But the (AMIG) into a business development costs threatened to drown the advertising agency he then headed. He needed sponsors quickly.

"We decided probably the best strategy was fear." he says. He chartered Concorde and sent 70 companies - One from each sector - cryptic invitations to a marketing event in Bordeaux, saying they could not afford to miss it. Most duly turned up to hear about the project told them they had three weeks to say if they were interested, otherwise we'd approach their competitors." Thirteen companies signed up, including National West-

minster Bank and Shell. BA bought out AMIG's stake in 1994 for £10.5m. But the intellectual property rights to Air Miles belong to Mr Mills, who decided to take it to the US and Canada with backing from Electra-Fleming, the venture capital group, and American Air-

The launch in the US, where frequent flyer had begun in the early 1980s, was an unmitigated disaster, he says. "It could have brought the whole group down. We lost well over \$20m."

Fortunately for AMIG and its financial partners, Canada proved a very different story. Mr Mills hopes eventur ally to pull off similar sales in Spain and the Nether-The French programme is

pext 12 months and Mr Mills has his eye on the lucrative German travel market. The peripatetic Mr Mills naturally uses Air Miles

himself, most recently to take his family on holiday in And, even away from dealmaking Mr Mills is to be found globetrotting - though



High flyer: Mills is moving into the leisure industries

CONTRACTS & TENDERS

Invest in Romania! ATE OWNERSHIP FUND

Advertising release for sale of shares by direct negotiation

The STATE OWNERSHIP FUND, a Romanian public institution based in Bucharest, 6 Staving olders Street, sector 3, is offering for sale by direct negotiation according to the Government Urgency Ordinance no.88/1997 approved by Law no. 44/1998 a stake of 70.71% of the roated share capital of Trading Company ELSID S.A., Titu.

Registered Office: Tiru, Str. Unirii nr. 5, Jud. Dambovita. Fiscal Code: R 943038

Fiveal Code: R 943038

Registration no at Commercial Register Office: 1 15/373/1991.

Issued stack capital, according to the latest records at the Commercial Register Office: 69,261,850 thousand ROL.

Tarmover in 1997; 43,382,183 thousand ROL.

Net profit in 1997: 244,307 thousand ROL.

Main scope of activity: manufacturing and trading of metallurgical graphitized electurdes, calcined periodeom coke and other secondary carbonic products.

The share ownership structure at 17/03/1998 is as follows:

3 Futured Investment Company Offensa Share owners through mass private their

The setting offer price is of 77,792 ROL/share and the value for shares purel put for sale is of 152,212,701,158 ROL.

The Company's PRESENTATION FILE required for subscription to the offer may be obtained at the State Ownership Fund, BUSINESS CENTRE, OFFERS DIVISION, Buchanest, 6 Stavaspoless Street, sector 3, daily between 8" and 16" has, at a price of 30,000,000 ROL payable at seller's pay office - S.O.F. beadquarters from Bucharest, 152 Cales Victories Street, 1 sector, 4th floor or in account no. 251100980900224 opened at Romanian Bank for Development - Bucharest Branch (BRD-SMB)

Further information about the company's private-ation may be offered by S.O.F.'s INTERNET SITE at the address www.saftro. or at the phone 114(A)1-3/4-62/81, Let 114(1-0)-310, in 92 Mr. Antonia Pompilia Scinesca.

In order to participate in the negotiations it is compulsory buying the PRESENTATION FILE

THE PRESENTATION FILE will be released on presentance of:

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In order to participate in the negotiations, hidders are required to present evidence of putting at the Seller's droposal a grammate of a participation of 3,944,254,023 ROL payable at Romanian Bank for Development—Bucharest Branch (BRD-SMB) in account no. 25110998990313 as follows: for natural/legal toreign persons payment of PRESENTATION FILE and participation grammate may be made in the account for convertible foreign currency open at the Romanian Bank for Fareign Trade (BANCUREX) account 2511000000034336008 in USD, at exchange rate transported by NATONAL ROMANIAN BANK at payment date for these Bidders may instruct the bank where they had their main account to release a bank grammate valid for 100 days from the deposition date for the offer.

Natural/legal foreign persons may make the payment for the SELLING-BUYING contract in convenible corners, at the exclusive rate transmitted by NATIONAL ROMANIAN BANK at the date of signate, for the Protocul for closury of the datect negotiation. lidders should submit the documents stipulated in Government Decision on \$5/1993, article 27, supulated in Section "C" of RESENTATION File and BUYING OFFER, inclusively the BUSINESS PLAN, in scaled envelopes at the above mentioned distent, prior to 9" of October, 1996, 16" hrs. local time



Nerve pellets to treat disease

show its bid (or offer)

to the floor broker to

There are other concerns

The head of listed trading at

a big investment bank

agrees that OptiMark

addresses very real problems

and says his firm will try it.

But he worries that the sys-

tem does not actually guarantee a trade will be done.

More seriously, he adds:

"OptiMark is not only anon-

inely informationless trad-

ing. And they are trying to sell this to traders who pride

themselves on being able to

risk is whether OptiMark

gets to, say, 50m shares

liquidity generated by the

system will start drawing in

more and more buyers and

sellers, not unlike a black

hole. Eventually, the system

could be used to let consum

ers trade airline or concer

tickets. Yet if Mr Lupien

pushes the button in late

October and nothing hap-

pens, he may find himself back on his ranch sooner

than he expects.

within six months, the

um. If it

evaluate information.

can reach critical ma

ous trading, but genu-

Tiny polymer pellets. ning nerve growth factor, might eventually be used to treat diseases such as Alzheimer's.

Researchers at Cornell University have developed pellets capable of inserting nerve growth factor into the brains of rats. These were fixual to be "very effective at regenerating dying cells, according to a presentation to the American Chemical Society this week It has long been known

that nerve growth factor is able to recenerate damaged parts of the brain. But . getting the right dose of the protein to the relevant part of the brain remains difficult. Cornell University: US, tel 60725536**5**1; http:// WWW.news.comell.edu/

Enzymes search Most enzymes work best at

above. But some enzymes which are produced by Antarctica and the Alps can function at extremely cold temperatures.

Coldzyme, an EU project with 10 participants including the University of Liege, Unitever, and the University of London, is 4 trying to modify bacteria to produce industrial enzymes hat work at low emperatures. If successful,

t would be possible to cut the energy required for many processes ranging from the washing of clothes to manufacture of harmaceuticals

They have succeeded, for the first time, in crystallising an enzyme from a "cold weather" bacteria. The goal of the project's search is to find out how

these enzymes are folded in such a way that they are able to stay flexible even at very low temperatures. University of London, Wye College; UK, tel (0)1233 812401; fax (0)1233 813140.



Novel car oil

US researchers think they have found a novel application for oil seed rape (canola) - as an environmentally friendly motor oil. They say it can reduce emissions from some vehicles and does not pollute the environment when it is produced.

The oil is produced by a Michigan-based soybean cooperative called Thumb Disead Producers Cooperative. It may cost about twice as much as petroleum motor oil but without the disposal costs for used oil.

The technology was developed at Colorado State University, along with Colarado-based Agro Management, specialists in developing new technologies or atternative crops. Colorado State University: US, tel 9704916009; dmoellenberg@vines. colostate.edu

Ceramics trap

Tiny grains of porous ceramics capable of traccing metal ions may become used for cleaning contaminated water. The material - called

SAMMS - is composed of tiny honeycomb-like grains, which contain a layer of densely packed molecules that are capable of binding to a specific metal ion. The molecules can be tailored to bind to any one of a number of toxic or precious metals including mercury, lead. chromium and radionuclides

A tablespoon of the powder has a surface area.

equivalent to a football field. t was developed by the Department of Energy's Pacific Northwest National Pacific Northwest National Laboratory: US, tel 5093755953; http:// www.pni.gov/news/

Gas detector A pollution monitor that can

detect a number of gases at

the same time has been developed at St Andrews University in Scotland. The monitor, currently known as Smug, or Spectrometric Multi Gas analyser, comprises a deuterium lamp assembly providing an "eye safe" 150mm wide beam of ultra-violet light and a receiver, which houses a telescope and detector. filtered to cover the uitra-violet light wavelengths between 200 and 380

incoming light is split into two paths and then recombined, creating an interference pattern called an interferogram. The data are read by an array of 1024 photodiodes before being compared with information held in a memory unit. In this way it can identity gases without having to be reset for each gas,

· ~ 54375

Smug can cover an area up to 200 metres across. It has been designed for use in sewage works, paper mills, Iron and steel manufacture, petrochemical plants, offshore rigs, and power stations. iemens: UK, tel (0)1202 782000; fex (0)1202 782331

Vanessa Houlder

CURRENCIES & MONEY

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Gas detector

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EQUITIES

Europe goes into reverse gear

EUROPEAN OVERVIEW By Philip Coggan, Markets Editor

yesterday, giving up Tuesrestructuring rippled across

the confinent.

1450 1400 dropped 40 per cent against broader Eurotop 360 index day. The UK merchant bank the D-Mark and the Moscow dropped 26.94 to 1,163.36. Schroders shapped Ecu 1.4 stock market plunged 13 per cent

Group issued a profits warnwaves from Russia's debt banking subsidiary, CSFB. banking subsidiary, CSFB. falling 26.5, or 2.9 per cent, The retail banking sector to 994.11.

be commend was one of the worst per-investors regarded the formers of the day, falling

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LOW

Sett price Change High 2665.0 -80.0 2702.0 2708.0 -80.5 2726.9

IN MARIO STYLE TIME EMPLITOR 180 MINEY DRYING WEN Early our lacker point

OTHER INDICES

100 index, which comprises Traders were particularly stocks in the core countries European stock markets savage on the banking which plan to join the euro, casualties. Philips fell Ecu reversed course once again stocks, particularly after CS moved rather differently 3.5 to Ecu 64.54 after revealday's gains, as the shock ing about its investment marks; it underperformed, unit would make a loss this

Only one sector was up on Investors regarded the formers of the day, falling terms of the restructuring – 32 per cent. CS Group fell because the all-UK sector revealed heightened losses was carried higher in Ecu at its department store operation of the Russians might defend the Russians might defend to reveal the day, property, largely because the all-UK sector revealed heightened losses was carried higher in Ecu at its department store operation. But retailing suffered only a 13 per cent decline, biles, alcoholic beverages, part of a trend where the by talk the Russians might defend to the day, property, largely because the all-UK sector revealed heightened losses at its department store operation. But retailing suffered only a 13 per cent decline, by talk the Russians might defend to the day, property, largely because the all-UK sector revealed heightened losses at its department store operation. But retailing suffered only a 13 per cent decline, by talk the Russians might defend to the day, property, largely because the all-UK sector revealed heightened losses at its department store operation. But retailing suffered only a 13 per cent decline, by talk the Russians might defend to the day. Property, largely because the all-UK sector revealed heightened losses at its department store operation. But retailing suffered only a 13 per cent decline, by talk the Russians might defend to the day. Property, largely because the all-UK sector revealed heightened losses at its department store operation. But retailing suffered only a 13 per cent decline, by talk the Russians might defend to the day. Property, largely because the all-UK sector revealed heightened losses at its department store operation. But a loss of the day. Property, largely because the all-UK sector revealed heightened losses at its department store operation. But a loss of the largely because the all-UK sector revealed heightened losses at its department store operation. But a loss of the largely by talk the largely by talk the largely by talk the largely by talk the largely other debt. The rouble cent, to 2,682.65 while the more than 3 per cent on the

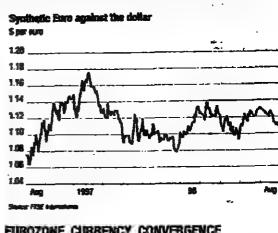
Once again, the FTSE Ebloc or 6 per cent to Eco 21.63. Poor corporate earnings news also claimed some from the other two bench-ing that its mobile telephone year, The electronics sector

dipped 2.4 per cent.

Among the retailers, Metro the day, property, largely fell Ecu 3 to Ecu 47.4 after it because the all-UK sector revealed heightened losses by talk the Russians might
Overall, the FTSE Eurotop information technology and defensive sectors or condefault on some of their
100 index fell 62.21, or 2.3 per other financial all fell by
sumer goods and utilities

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FUEE Enrolog Industry To	actions .					
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Electronic & Eject, Spain	923.60	-2.40	-22.55	181	4.80	938.19
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Food Producers	930.81	-1.09	-70.36	1.72	2.13	D48.10
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Healthcare Pagementiculu	895.31 993.08	-225 -0.84	-21.50 -8.30	1.36	9.52 4.27	984.42 987.42
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SERVICES	1206.70	-1.89	-22.15	224	28.11	1207.11
Diskinder	820.86	-1,78	-14.71	2.88	17.37	830.08
Labour & Venne	803.64	-1.32	-10.75	3.15	10.42	812.17
Hede	985.61	-1.35	-11.49	242	9.60	00.200
Parlations, Food	963.21	-2.90	-27.76	8.17	10.70	973.82
Antalian, Gaesal Telecomourications	1002.86	-1.27 -1.30	-12.55 -21.17	3.47 1.78	13.94 12.40	1016.52
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Panta Retail	910.48	-3.15	-39.65	1.31	12.57	652.12
INDEXTOR	. 981L54	-2.15	-80.14	VAS	18.07	991.48
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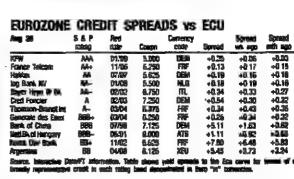
EUROZONE CURRENCY CONVERGENCE

Stateon conversion rates against the D-Mark									
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Acative Belgare Friede Friedd Suly Lamminung Netherlands	7 £3532 20 £255 1.75286 3 04021 0 422.7£ 940.002 20 £252 1 12674	7 0065 30 6251 3 2525 3 2629 0 3987 946 5014 20 6251 1 1277	+0.00 +0.00 -0.04 -0.59 -0.35 -0.70 +0.79	-001 -001 -004 -002 -037 -037 -010	7 0379 20 6263 3 3529 3 0444 0.4014 990 511 20 6263 1 1275	356 356 355 367 5.42 471 355 340	+0.05 +0.02 +0.03 +0.14 +1.16 +1.18 +0.02 -0.05		
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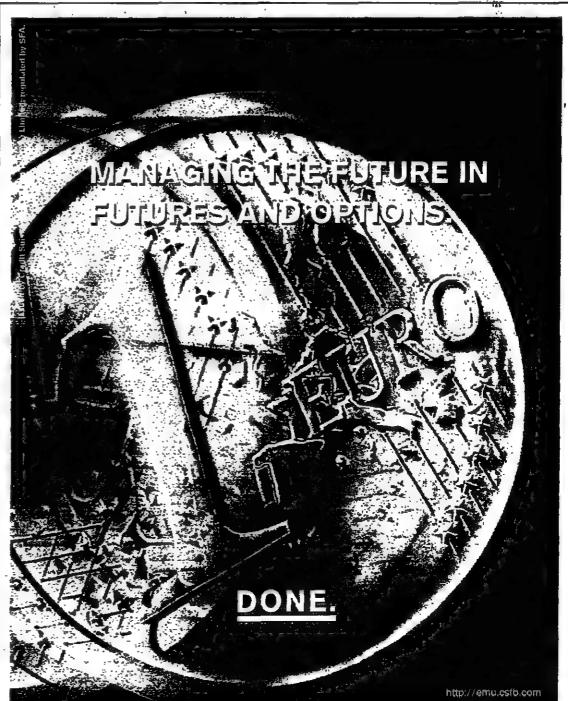
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Prices mixed after volatile day's trading

GOVERNMENT BONDS By Vincent Boland in London and John Labate in New York

Prices were mixed after a volatile day's trading, with Russia's turmoll casting an ever longer shadow. US Treasuries opened higher, easing downward pressure in Europe, but the outlook remained uncertain.

Technical factors again plagued German bonds, although investors continued to switch into bunds in the cash market. Scandinavian bonds see-sawed amid signs that Denmark may have to raise interest rates to maintain the value of the krone and prevent further outflows of foreign capital.

GERMAN BUNDS cased. although many analysts suggested it was only a tem-

Gerlof de Vrij, European strategist at ABN Amro in Amsterdam, said that in swing wildly this week, there was enough fundamental support from investors in the cash market for a new

"There is a lot of buying of the liquid bund benchmarks and still some buying of OATs, but people are on hold in Italy and cutting their losses in the peripheral markets," he said.

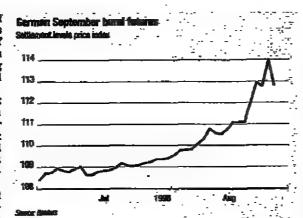
However, he noted that yields across the European markets were still at or near their lowest levels and that the volatility in the bund futures market meant that spreads were being overstretched.

The bund future settled 1.17 lower at 112.83, with volumes in the Eurex derivatives market again approaching 750,000 contracts.

Earlier, the exchange moved to dash rumours, which had unsettled the markets the previous day, that it would allow cash settlement of open positions in the September bund future, and that appropriate bunds would be required.

"That clarified things but it added to the volatility. spite of the technical factors The squeeze is very much that saw the bund future still alive," said Reiner Back, global fixed income strategist at Dresdner Kleinwort Benson in Frankfurt.

The squeeze had been the main driver of futures mar- SWEDISH BONDS ended



ket activity this week, with Russia affecting sentiment

Bund weakness allowed 10-year spreads to Italian and Spanish bonds to contract sharply, while Scandinavian markets, still unsettled by Norway's interest rate rise earlier in the week, were buffeted by negative sentiment on Denmark's interest rates. Market-making in Danish government minutes during trading, observers in London said. However, DANISH and

before it finally contracted to end at 60 basis points. Danish 10-year paper stood at 55 points over bunds.

mostly flat after swinging

At one point the spread of

10-year Swedish paper over

hunds was in the low 90s

wildly in early trading.

Phyllis Reed, European bond strategist at Barclays Cavital in London, said the sell-off in Scandinavian markets represented an asset allocation shift among government bond investors into markets perceived to be

navian markets may have per cent, and the 10-year been overprised relative to note was \(\frac{1}{24} \) lower at 102\(\frac{12}{24} \). Emu markets, noting that yielding 5.238 per cent. neither Sweden nor Denmark was likely to be in the

guro zone before the UK. What we will be left with after the dust settles is higher spreads for Denmark and Sweden, while Italian and Spanish spreads will. come back in again," Ms

UK GILTS followed bumds downwards but managed a substantial outperform with the 10-year spread contracting to 129 basis points from an overnight 138 uture settled 0.21 lower at 112.98, with 120,000 contracts exchanged on Liffe, while the December future saw turnover of 70,000 contracts. It settled at 111.30.

US TREASURIES opened stronger but were mixed by midday as the Russian economic picture dominated The 30-year long bond came under selling pressure,

sending the price down & to

100% and the yield higher to 5.449 per cent Among shorter-term issues, the two-year note was

note was 1 lower at 1026. There is an awful lot of

fear in the marketplace, said Dennis Hynes, chief investment strategist at R.W. Pressprich. Prices gave way to technical trading as investors adjusted their posttions following a morning coupon pass by the Federal Reserve, causing a mild

sell-off in long bonds. This pull-back is surprising given the state of tur-moil in the market." Mr Hynes said, adding that the long bond yield could retest the 5.50 level before investors step in again strongly.

international events, especially in emerging economies, but there was surprise in the latest domestic economic data. Durable goods orders rose 2.4 per cent in July, following a 0.2 per cent rise in June. That came one day after reports of stronger than expected existing home

A report on US gross domestic product will be released today, and personal up 1 to 100 yielding 5.148 ures are due out on Friday.

NEWS DIGEST

EMERGING MARKET DEBT

Asian crisis prompts fall in second-quarter turnover

Turnover in emerging markets debt fell in the second quarter of 1998 compared with the same period of last year, as non-specialist investors fled the market as the Asian crisis spread throughout the developing world.

Figures released yesterday by the Emerging Markets
Trading Association showed that total volume of trading in emerging markets debt instruments amounted to \$1,400bn In the second quarter, compared with \$1,420bn in 1997. Paolo Lerne, director of emerging markets research at

Goldman Sachs, said: "Some cross-over investors who left the market during last year's events in Asia have not returned. In addition, capital flows have been somewhat diverted back to the US and European markets, as a result of the buil markets and continued economic growth."

There was a marked shift towards the more liquid emerging market bonds. Brazil "C" bonds and Russian "Prins" both recorded substantial increases in activity. 83 investors responded to the more volatile market condi-

Brazil, the most heavily traded emerging debt market, experienced a slight increase in activity, although local market trading collapsed. Meanwhile, Russia became the second most actively traded sovereign, following a 33 per cent increase in volumes to \$242bn. It overtook Mexico for

By contrast, debt instruments issued by Bulgaria, Ecuador, Morocco, Panama and Peru fell to record low levels in the second quarter. Simon Davies

INFLATION-LINKED BONDS

France plans to set benchmark

The French government is to issue at least FFr20bn worth of inflation-linked bonds next month, the first time any euro-zone government has done so. Officials hope the bonds will become the inflation-linked benchmerk for the

Both Sweden and the UK have already issued inflationlinked government bonds but neither country is participating in the first round of European economic and monetary

The French bonds, to be known as OATI, will be launched on September 15 in a transaction lead-managed by Banque Nationale de Paris, Société Générale and Bar-clays Capital. They will mature in July 2009, and there are likely to be further auctions as part of the government's annual funding programmes.

The move by France reflects its desire for its government bond market to be established as the banchmark within the euro zone after the arrival of the single currency. French OATs are used as a benchmark when pricing eurodenominated issues, but German bunds remain the most popular instruments among the region's government bond markets. Vivcent Boland

Bankers resigned to losses on Russian swap

Gloomy foreign bankers were yesterday digesting the terms of Russia's debt swap, resigned to the inevitability of severe losses but looking to the expected release today of a term sheet to clear up a

range of questions. Estimates of how much foreign investors have lost range from \$13bn to \$16bn. but pinning down exact figures depends on assumptions about the rouble's level against the dollar. Yesterday, the rouble plunged 5 mist at West Merchant per cent against the dollar. Bank.

when the swap will take place. However, the fact that Moscow had effectively defaulted on its domestic debt had profound implications for the way investors would assess emerging market debt in future, analysts

One immediate effect is that banks will be forced to liquidate positions in other emerging market debt to make provision for their losses on Russian debt, according to Tim Ash, econo-

in addition, that the default happened while an Fund loan programme was under way means that investors can no longer view the IMF as a quasi-lender of last resort to such economies. That will further add to emerging market risk premi-

ums in future.

"That notion always gave comfort to markets and that's one variable that's out of the equation. It's a precedent that's quite dangerous," said Amer Bisat, emerging market analyst at Salomon Smith Barney.

average of five basis points yesterday as investors sold assets across the board on news of the GKO swap plan. Under the plan, investors

can either swap 20 per cent of their GKOs into eight-year dollar securities that pay 5 per cent interest or they can take a variety of rouble-denominated bonds maturing in between three and five years, with interest on a sliding scale from 30 to 20 per

However the proposed new

Emerging market euro- much less interest than the hard currency so as to meet bond spreads widened by an comparable dollar bonds cur- margin calls. rently trading in the market If investors were to trade in the new paper, their total return would be only about

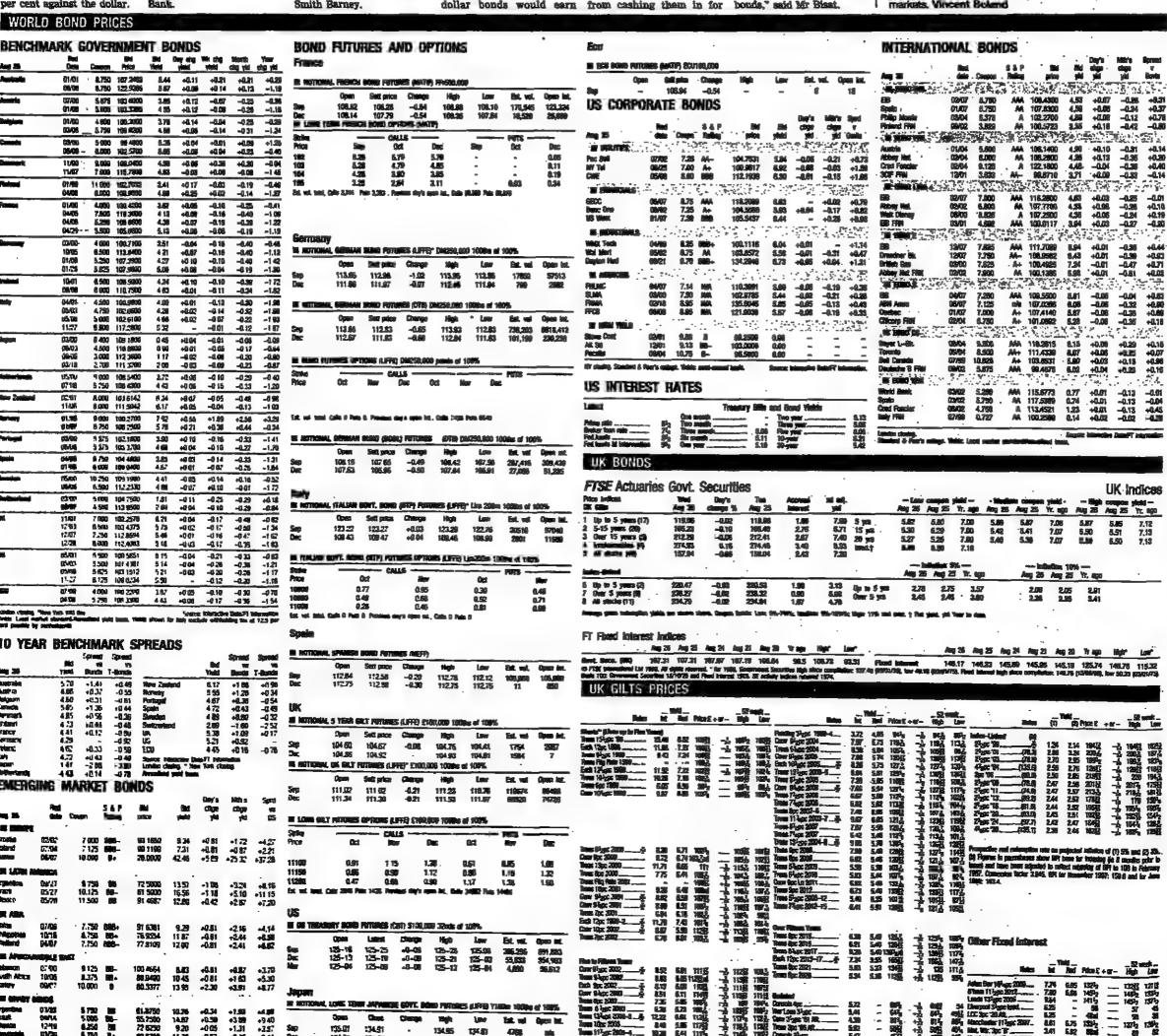
five cents on the dollar. With the rouble option there is little appeal in holding rouble assets for the proposed maturities because the rouble is fast losing its

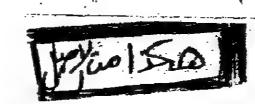
Also, the Russian government has said there may be restrictions on trading the new rouble securities. This would prevent investors

aim of reducing Moscow's crippling short-term debt burden, the swap has done lasting damage to investor confidence, bankers say.

Combined with the falling rouble, it has also increased the possibility of a sovereign default, some say.

By all estimates they're going to have a large financing gap next year if you rule out the return of foreign buyers in the [local] debt market and rule out suro-bonds, said Mr Bisat.





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BE CROSS RATES

CURRENCIES & MONEY

Crisis in Russia does global damage

MARKETS REPORT-By Sknon Kuper and Richard Adams

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TONE LINKED BONOS

HEANE MARKET DEBT

The growing crisis in Russia hit currencies as diverse as ish krone and the Australian

dollar yesterday. Among the worst victims were the more it is thought that Russia try will drastica might dump oil and precions capital controls.

after the rouble had dropped 5 per cent, and it declared all previous trades void. However, against the D-Mark the rouble fell 41 per cent on MICEX, and in offshore trad-ing it was at about 13 to the

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dollar, about 50 per cent bought its currency again, below its level of early. The Bank of Greece August. When Russia devalued the rouble last Monday, it said the currency would hundreds of millions of dol-float in a band of 6 to 9.5 lars. And the Bank of Den-against the dollar. Already, mark intervened for the the Greek dractima, the Dan-the rouble has dropped krone, which has suffered below that, ...

that either it will fall fur- cles and from the present liquid emerging markets, ther, forcing Russia to flight to safe havens. Den-and currencies backed by default on its dollar-denomi- mark is staying out of the large exports of commodities nated debt, or that the countained of the euro. try will drastically extend

metals in the market.

At the root of the panic were Russia's effective The Australian dollar and Canadian dollar, both "commerce Russia's effective modity" currencies, fell to default on part of its rouble all-time lows. The former debt and the collapse of its dropped below 57 US cents. currency, Russia yesterday while the Canadian dollar suspended dollar/ronble dropped 1.1 cents to C\$1.561 trading on the Moscow Interbank Currency Exchange though the Bank of Canada Aug 28 £ spot 1 eth 3 mb 1.8405 1.8705 1.8322 1.6320

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repeatedly bad to intervene for the drachma, spending hundreds of millions of dol-..... from recent falls in the Nor-Most strategists believe wegian and Swedish curren-

> The US dollar, seen as the satest of safe havens, jumped 0.9 pfg against the D-Mark to close in London at DM1.808, above its recent range. Nell-MacKinnon, of the hedge fund advisers Burke & MacKimon in London, said German assets were suffering because the country's banks were heavily exposed to Russia. Last week, when the focus had been on German exports, the D-Mark had remained fairly stable, because most German sales

Agricus for DSS (AS per S) 120 AT

investors decided that the UK's economic slowdown was tame stuff compared with Russia's crisis.

were amused that the west did not jump to to save Russis from default on its domestic debt. In recent times the International Monto Russia are guaranteed by etary Fund has helped pre-

tegically important countries its on their recent advances, such as Thailand and Bul- because they needed cash to garia. Now the market per- meet margin calls on their ceives a sharper risk of Russian losses, and to repay default than before in all investors who wanted to

lic and Poland are among the emerging markets seen as least likely to default. Yet Juliet Sampson, emerging markets analyst at Bank of America in London, said this was because they were the most liquid of emerging markets. Funds that specialised in emerging markets were selling their holdings in

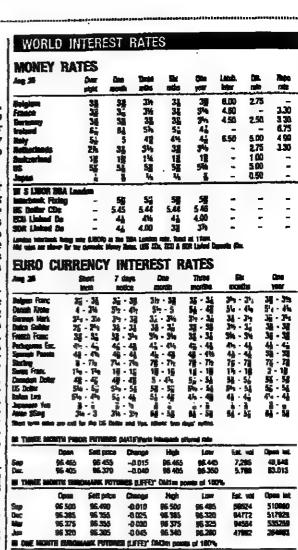
these markets, booking prof-

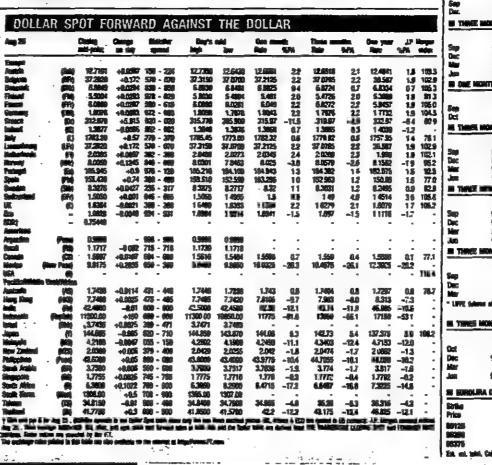
take out their money.

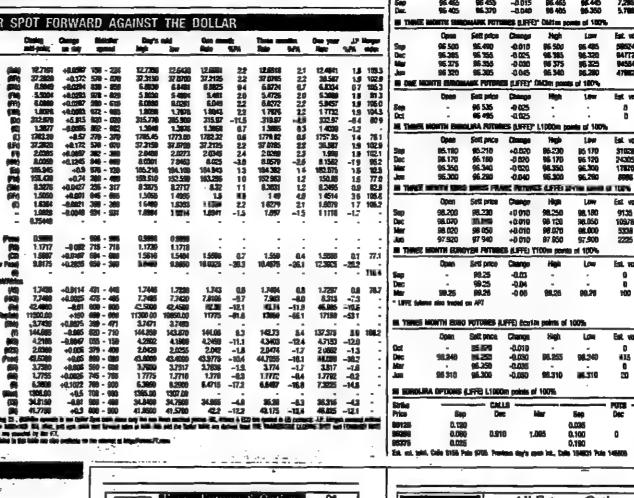
■ Greece, the Czech Repub. ■ The New Zealand dollar seems to have nothing going for it. New Zeeland is on the edge of Asia; it exports lots their currencies were among of commodities (many to the main victims restorday. Asia); and even before the Asian and commodity crises struck, its economy was about to go into recession.

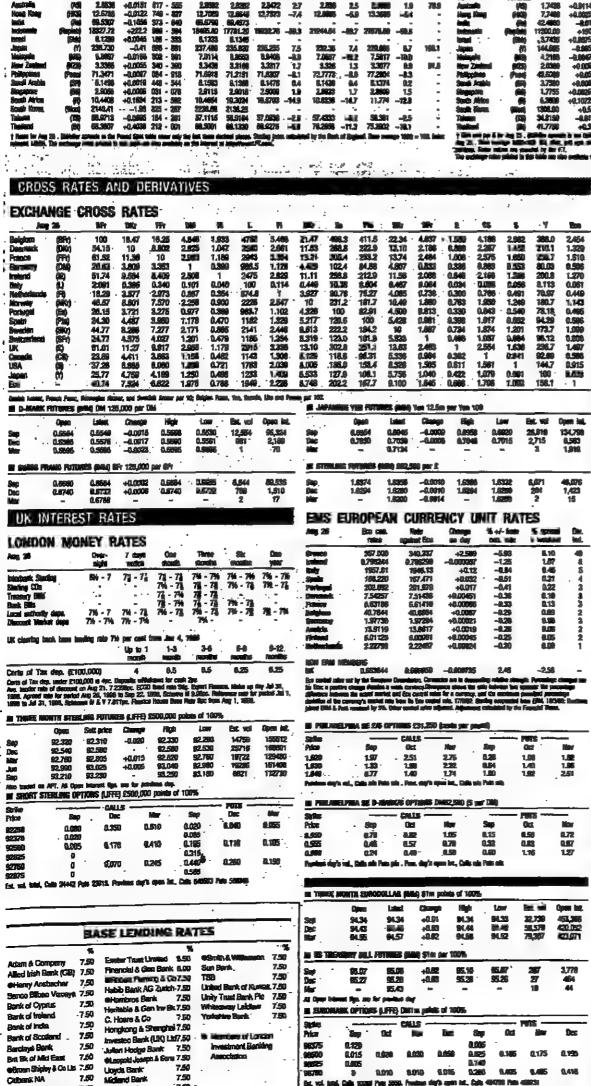
tral bank showed impressive optimism yesterday in trying to talk up its currency. Don Brash, the bank's governor, complained that the markets had let monetary policy become "too loose, too fast" by attacking the Kiwy dollar. Mr Brash called for the bank's monetary conditions index to return to zero. Trad. So the New Zealand cen-

index to return to zero. Traders largely ignored this. Few believe that at a time like this New Zealand is about to









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Norway plans further cuts in oil investment |Oil shrugs

Norway, the world's second-largest oil exporter, is preparing to slow still further investment in offshore oil, having already postponed 12 field developments

Marit Arnstad, energy yesterday announced that Norway will tackle the trend toward increased costs in several oil and gas projects in its petroleum sector by appointing an evaluation committee.

The government will

significant cost increases, in spite of the industry's fouryear cost-cutting initiative. known as Norsok, to bring down costs and increase Norway's competitiveness.

"I am concerned about the consequences of such tendencies, if they materialise, both on the competitive position of the [Norwegian] continental shelf and on state petroleum revenues," said Ms Arnstad, speaking at the 13th Offshore Northern Seas conference. "This is not an admission that Norsok is a the pressure for spare capac-

in this new effort to under-failure. We've succeeded [in ity in the industry, fuelling stand the reasons for recent bringing down costs] compared with 1992, but we've costs," she added.

This year, oil companies sought approval for investments totalling a record NKr88hn (\$8.6bn), 24 per cent more than the government expected. This led the ministry in March to delay a year, with the aim of cutting investment by NKr5bn this year and NKr12bn in 1999. Part of the reason for

increasing costs has been

cost overruns on projects. Esso's Balder field in the North Sea, which has been delayed to 1999 from mid-1997, is now expected to come in NKr3hn over budget, while Statoil has raised estimated costs at its Norwegian Sea Aasgard project to NKr33.6bn from NKr27bn.

The evaluation committee's seven representatives from Norway's state oil company Statoll, Aker Maritime Kvaerner, Norwegian universities, and the energy ministry - aim to complete their review by January.

By that time, the ministry will have received reports from oil companies on the Norwegian shelf that will be instrumental in determining whether the government needs to postpone any other field developments. However, the ministry does not expect that will be the case

given the current oil price

situation, Ms Arnstad said.

Norway, which is not a member of the Organisation of Petroleum Exporting Countries, joined other oil producing nations in May in agreeing to curb global of output, in an attempt to

boost oil prices that have been more than 30 per cent lower this year than the average for 1997.

Norway has reduced its output by more than 100,000 barrels a day and has no plans at present to make any more cuts, said Ms Arnstad. In spite of the failure so far of the cuts to lift oil prices, Ms Arnstad expects them to strengthen and stabilise in the next six months. been removed from the market and will continue to be

held from the market, she

off delay to meeting

MARKETS REPORT

This year has been a roller-coaster one for the oil markets and it threatens to continue that way. Prices have been rock-bottom, there has been a flurry of meetings and public statements by ministers from the Organisation of Petroleum Exporting Countries.

Yesterday yet another key producers' meeting, due to ake place on Friday, was postponed until September, amid speculation that there was little or no agreement between the three parties concerned: Mexico, Saudi Arabia and Venezuela.

The postponement of the meeting (which was expected to discuss possible further production cuts) was, however, shrugged off by the markets, which persisted in taking a dim view of immediate prospects, even in the light of relatively bigger stock declines in the US than had been expected.

Latest figures from the American Petroleum Instithat makes sense for all the tute show US crude oil stocks fell 5.6m barrels last week to almost 340m barrels; the Department of Energy put the fall at 6.8m barrels. However, such figures still leave US crude stocks some 30m barrels above those of this time last year.

Brant bland on the Inter-Petroleum national Exchange continued to be range-bound yesterday. In later trading the September \$13.35 a barrel.

Prospects for continued low oil prices are threatening the viability of planned new projects, according to Phil Watts, group managing director of the Royal Dutch/

\$281.80 a troy ounce and silver to just below \$5 an ounce, its lowest for 10 months, under the weight of New York selling ahead of the over-the-counter options expiry early yesterday.

Once that was out of the way, both precious metals bounced back. Gold closed in London at \$284.35, up \$1 an ounce from Tuesday's close while silver ended at \$5.085 compared with \$5.045. Traders said Russia's

financial crisis was now an issue. Tony Warwick-Ching, analyst at Flemings Global Mining Group, said Russia had cut itself off from other sources of credit and had been hinting that precious metals were being mobilised. Russia had admitted it was

involved in gold swaps, where gold is sold with a promise that it will be bought back at a future date. "Realists argue that a Russian swap is merely a deferred sale," said Mr War-

wick-Ching. "In the past when the moment has arrived for redemption, the Russians have simply let their swaps go, since coming up with the dollars to buy back their builton has proved impossible." On the London Metal

Exchange the price of copper. was unchanged but an apparent supply tightness for metal for delivery in Sep-

Alan Williamson, analyst at Deutsche Bank Research, auggested there was no physical tightness but "the consensus is that it is caused being rolled forward into December. This is mildly bearish in that the funds see further price falls to come and are willing to continue playing the copper market from the short side rather than close their positions."

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2845 P

STATE OF BELLEVILLE

Bulgaria to be transit hub for central European gas

Agreement with Russia on increased imports will allow the country to expand its network, say Kerin Hope and Theodore Troev

ulgaria's ambition to Become a transit hub for patural gas being central Asia to the Balkans and central Europe is starting to take practical

A framework agreement this year provides for also have plans to develop increasing gas imports from alternative sources of gas the current annual 6bn cu m to 19bn cu m a year in 2010.

Most of the incresse would cover supplies to Turkey. where demand for natural gas is rising sharply, as well as Greece, Serbia, Macedonia and Albania. The accord marks the end of a protracted dispute

between Sofia and Moscow

over prices of gas shipments to Bulgaria following the Gazprom, the Russian state gas group, to play a bigger role in the Bulgarian markets by acquiring full con-

COMMODITIES PRICES

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BASE METALS -

crossroads for transit pipelines carrying gas to central Europe and Balkans," said Evgeni Bakardzhiev, Bulgarla's deputy prime minister.

"We plan to set up a western European infrastructure for natural gas, including signed with Russia earlier ments with suppliers. We

> Details of pricing for Russian gas supplies to Bulgaria, as well as transit tariffs, have still to be worked out, but they are expected to be slightly below international levels. The emergence of Top-

energy as a wholly owned subsidiary of Gazprom, which will handle gas deliveries to Bulgaria, should investment in Bulgaria's extended pipeline network, according to Bulgarian offi-

Under communism, Bulventure with a group of garia imported natural gas from the Soviet Union to fuel "Bulgaria can become a sprawling industrial com- line to supply Serbia has

Precious Metals continued

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M GOLD COMEX (100 Twoy etc. Shop etc.)

plexes, which in turn exported chemicals and mining products to the Comecon

However, the emphasis on heavy industry meant only a were able to build low pressure distribution networks to serve domestic consum-Bulgargaz, Bulgaria's state

gas monopoly, built the country's first transit pipeline in the 1980s to carry Soviet gas to Turkey across the border in cestern Thrace. also used to supply small quantities of gas to Greece, where the construction of commercial and domestic distribution networks is running several years behind

spur pipeline completed last year carries Russian natural gas across the border to the Macedonian capi-

However, the construction of another 100km spur pipe-

GRAINS AND OIL SEEDS

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WEST LIFE (III) DOWN 2 per based



been held up because of develop its own regional international financial sanctions against Belgrade. Bulgaria's painful transition to a market economy, together with the four-year dispute with Russia over gas

pricing and supplies, stalled plans by Bulgargaz to line network. Bulgargaz officials said that following the new agreement with Moscow, the company would spend up to \$1bn over the next five years

Serbia and increasing transit capacity to Greeca. There are also plans to extend the pipeline serving Macedonia across the border

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2296 -43 2318 2285 3,796 20,996 229.4 -5.0 234.1 228.9 1,596 8,596 233.5 -4.5 238.0 233.1 1,696 13,145 238.0 -5.1 241.0 238.6 213 1,676 242.8 -3.6 246.0 342.2 128 1,275 242.4 -3.8 245.0 241.7 64 728 7,728 48,646

into Albania. "The south Balkans has to and Bulgaria.

as completing the links with.

energy network, financed both by international agencies and the private sector as

woloration for oil and gas of Bulgaria's Black Sea coast has indicated the existence of commercial exploitable gas deposits, which could boost domestic supplies. But the main alternative source of supply would be the central Asian

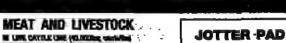
garian officials had started talks with Royal Dutch/Shell and Botas, the Turkish state gas company, on a project to build a gas pipeline from Turkmenistan to central Surope through Iran, Turkey

Access to bigger quantities of cas through the Turkmenistan pipeline would also enable Bulgaria to expand consumers and households. We've legged behind on building a domestic gas

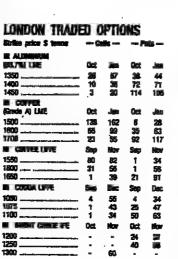
long-term project but one

countries in the region," he

industry since the economic transition started, mainly because of the uncertainty of Overgas, a private company which is building pilot domestic gas networks in several southern Bulgarian towns. "But this will be a spin-off from the development of transit pipelines across Bulgaria."



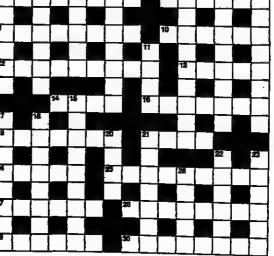
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CROSSWORD

No.9,771 Set by ARMONIE



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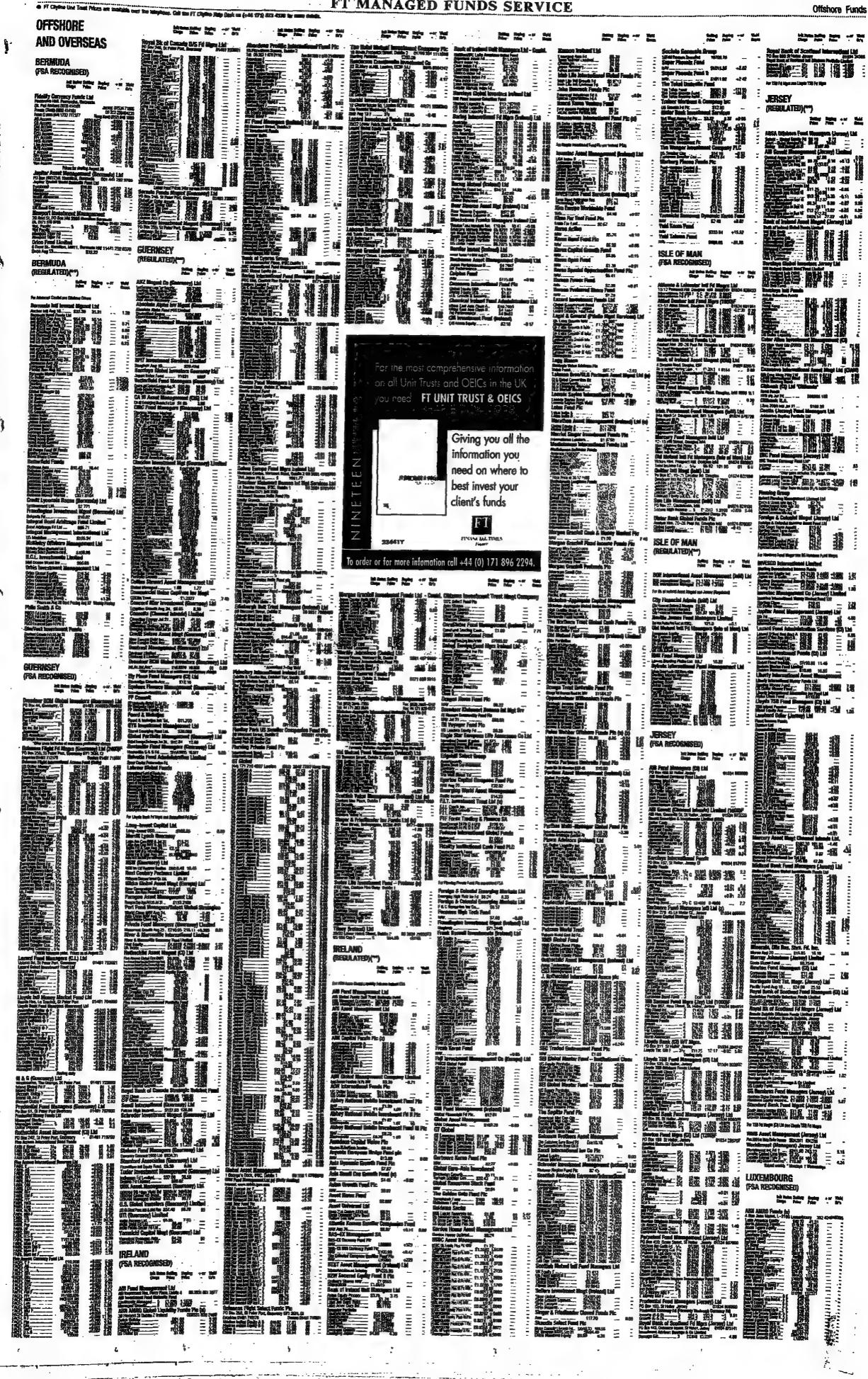
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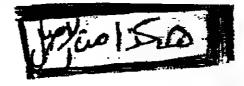
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CROSSWORD

FINANCIAL TEMES THURSDAY AUGUST 27 1998 FT MANAGED FUNDS SERVICE



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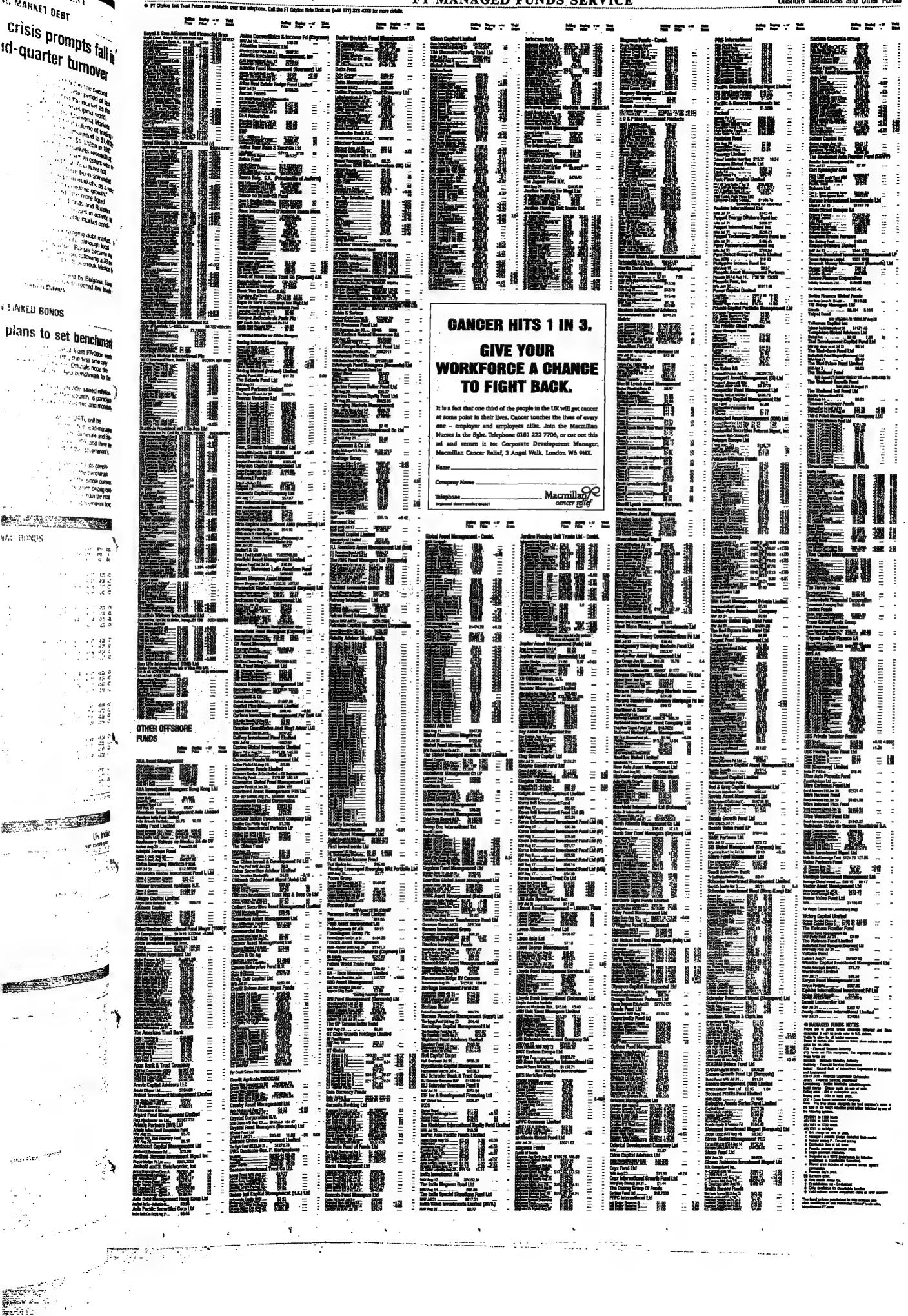
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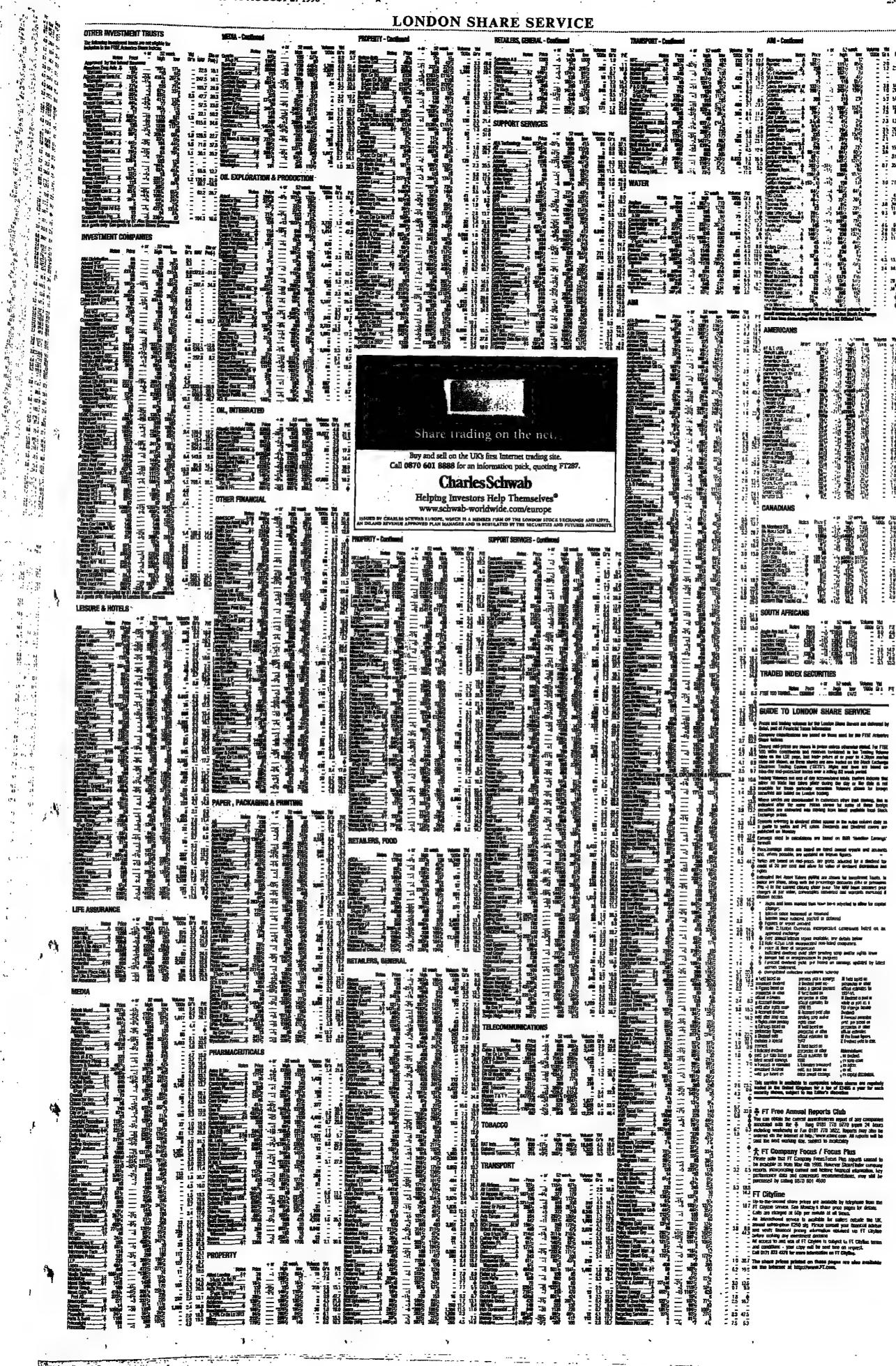
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Russian debt news sends Footsie into retreat

MARKET REPORT By Philip Coggan Markets Editor

Russian debt almost as bad as a default. sent share prices tumbling round the world yesterday and put paid to the short-

lived rally in London. Two solid days in the UK stock market had helped the FTSE 100 index gain more than 177 points, almost wiping out Friday's 190,4 point loss. But like the Greek legend Sisyphus, condemned

till eternity to push a ball up weighed any domestic news the pressure, dropping more gist at Morgan Stanley, said a steep hill, the market's including trade figures for than 100 points by lunchtime he believed "the UK ought share prices rolled down-

restructuring plan, which down at 5,545.4, having been keep traders happy. some investors regarded as as much as 152 points lower, at 5.501.7 in mid-afternoon. Medium- and smaller-sized

stocks were also badly affected, with the FTSE 250 index slipping 76.7 to 5,023.6. That was its lowest level since February. The Small-Cap index fell 34.4 to 2,251.4, bringing its decline since the all-time high in May to 19.4

International factors out-

broadly in line with expectations. Unlike recent sessions, Footsie closed 109 points there were no new blds to

Stock markets fell around Europe, particularly in the banking sector, as investors worried about the effect on balance sheets of the restructuring plan.

Wall Street kept up the pressure when it opened. with the Dow Jones Industrial Average dropping more than 100 points in the first few minutes of trading. Footsie could not resist

great efforts proved futile as June and July, which were and maintaining the three not to be penalised on digit loss for much of the account of Russia and Asia afternoon, save for a brief on the same scale as other period when Wall Street markets. But there is quite seemed to be rallying. Only clearly no appetite for risk 11 Footsie constituents managed to be higher on the day.

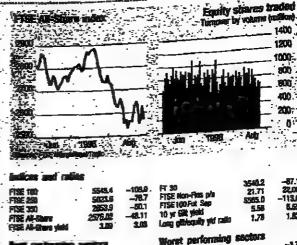
Volume was low once more with 671.8m shares by the 6pm count, of which 41 per cent was in non-FTSE 100 stocks. Hope remained that the market may perk up next week when institufund management group. says: "In the US and UK, it tional investors return to their desks after the August holiday period.

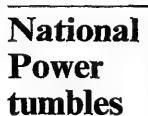
is clear that the markets have been driven higher in

ings growth and the fall in bond yields. When markets . have due to interest rate con-CONTROL!

But the picture has completely changed, he believes.

You don't have the earntors. We believe the UK marings growth to support the market. We expect 0-5 per was less optimistic. Peter market has lost direction Chambers, head of active and is prey to international events, which is why it has been so volstile." Mr Chambers believes the UK market will be in a gentle down-





COMPANIES REPORT By Steve Thompson and Joel Kibazo

National Power shares cum under constant downside pressure during a turbulent session, finishing the day with a befty 33% decline, some 6 per cent, to 520p.

The steep fall came as a number of brokers began to talk the story that the company is stepping up its overseas investment of around £600m a year and that its earnings stream will suffer

row for National Power sbarebolders and they will have to be patient." said one analyst. He said there was underlying support for the shares around 475p and also noted the long-standing takeover speculation that has been propping up the share price. But he insisted there was better short-term value in PowerGen.

Retailer Kingfisher ended the day as one of the best performers in the Footsie after HSBC Securities reiterated a positive stance on the stock. The shares yesterday improved 3 to 502p in trade

The CSFB review on the general retail sector pointed out that following a period of

underperformance the sector was revisiting lows last seen in the recession of 1990. Kingfisher was one to consider, the broker said, and it upgraried the stock to "buy" from "hold", CSFB set a Emerging Market invest-510p-a-share near-term price

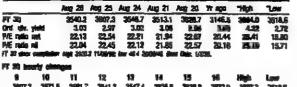
target for the stock. Russia and the steep decline in the rouble caused a rush for the exit in many of the big investment trusts specialising in emerging mar-

Templeton Emerging Markets Investment Trust, the largest of these specialised funds, fell sharply, losing 6 at 342p while BP dropped to 71%p on hefty turnover of 26% to 803p.

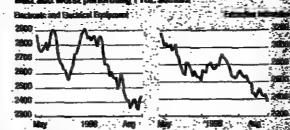
worst performers in the FTSE 250 constituents. Other significant losers in the investment trust sector

included Foreign & Colonial off at 46p and Fleming The economic crisis in Emerging Markets Investment Trust, down 4% at Shell was easily the heavi-

est traded stock in the London market, with turnover of 47m said to have represented renewed switching involving Royal Dutch and also BP.



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quity harpaies?	-	42.550	36,783	43,794	35,690	40.00
inares traded part		891.1	620.9	748.0	999.4	743.1
fold market targalogs	-	88.489	46,612	89,129	44,051	-
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(olal, ains traded (rolp)	871.8	695.6	813.1	1035.7	795.6	



Syndicate was one of the big winners in the second liners. climbing a further 13 to 2760. for a two-day gain of 28p, as the market continued to warm to the recent "significant" oil and gas discovery off the west coast of the Shetland Islands. One analyst described the find as having "company-making capability".

Caim disappoints

Another steep fall in Cairn Energy, down 16% at 114p, continued to reflect the market's disappointment with the lack of success at the drilling company's operations in Bangladesh.

Engineering stocks were unsettled by the continued strength of sterling. Williams de Broe reduced its 1999 earnings estimates for sector on concerns about pound, increased competitiveness in the industry and fears of a general slowdown next year. Siebe fell 11 to 219p while

British Aerospace gave up 10 to 420p. Rolls-Royce, which is to supply the

the subject of profit-taking which left the shares trailing 15 to 221p after trade of 7.3m. BA shares eased 4 to 499p.

among institutional inves-

ket has value in it, particu-

equities at Gartmore, the

But one leading institution

larly over the longer term."

However the direction was not all one way in the engineers. Electrical engineering giant GEC was the best per forming Footsie stock for rill Lynch advised clients to accumulate" the stock

The broker is believed to have set a 525p-a-share price target for GEC, which gained 4 to 450p yesterday. Industries saw the shares appreciate 22 to 675p, the best performer in the FTSE 100 yesterday.

The extreme volatility affecting markets was put forward as the reason for Schroders' poor showing. Among the best of the PTSE 100 stocks on Tuesday, the shares were hit yesterday by the downturn on the Hong Kong market as well as by worries that big falls in global markets would affect the bank's earnings from merchant banking and fund management. They finished the day 98 off at £14.42.

The plan to return funds to shareholders was first announced with Anglia's Stock price at the close of 65 on August 24 of 847.5p per share, this ts to a buy back of

share, the commony said. already suffering after the recent slowdown in the housing market showed renewed weakness with Rar-FTSE 250 and down 14, or 7.4

per cent, to 175%p. The company is scheduled to unveil its preliminary figits expected to come in around £89m, up 27 per cent on last time.

Bellway was another poor 15 to 2460

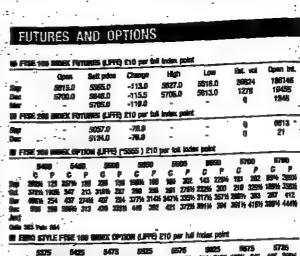
Allied Domecq held up well for much of the session. It looked like being Footsie's. best performer before finally

Eventually finishing 7% easier at 530p, Allied shares nevertheless outperformed other stocks in the drinks Hechon. Much of the early support

for the stock price came from renewed switching into Diageo and Bass.

The former was again unsettled by concerns about a sharp reduction in whisky

exports to far eastern comtries, which analysts fear could spread to Latin America and elsewhere. They

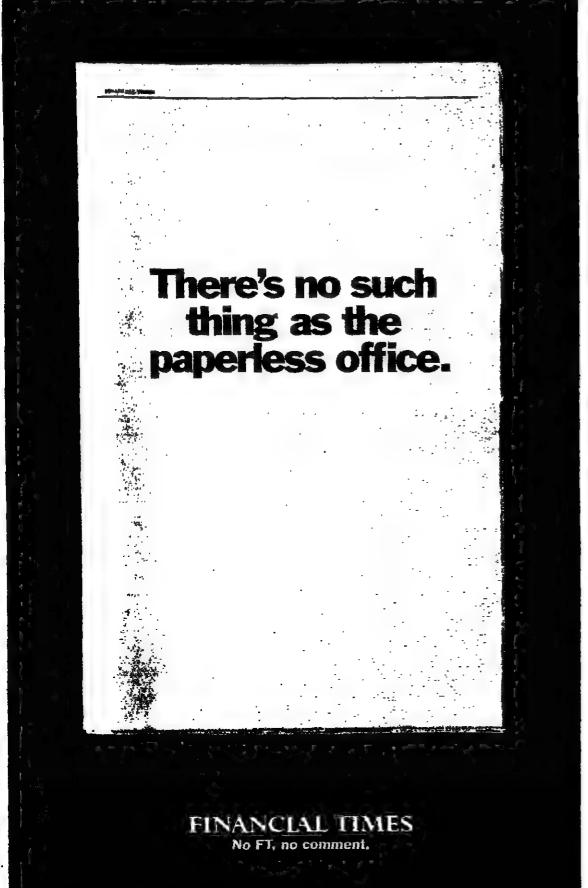


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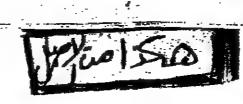
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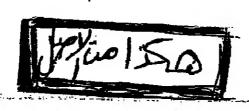
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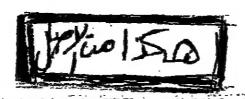
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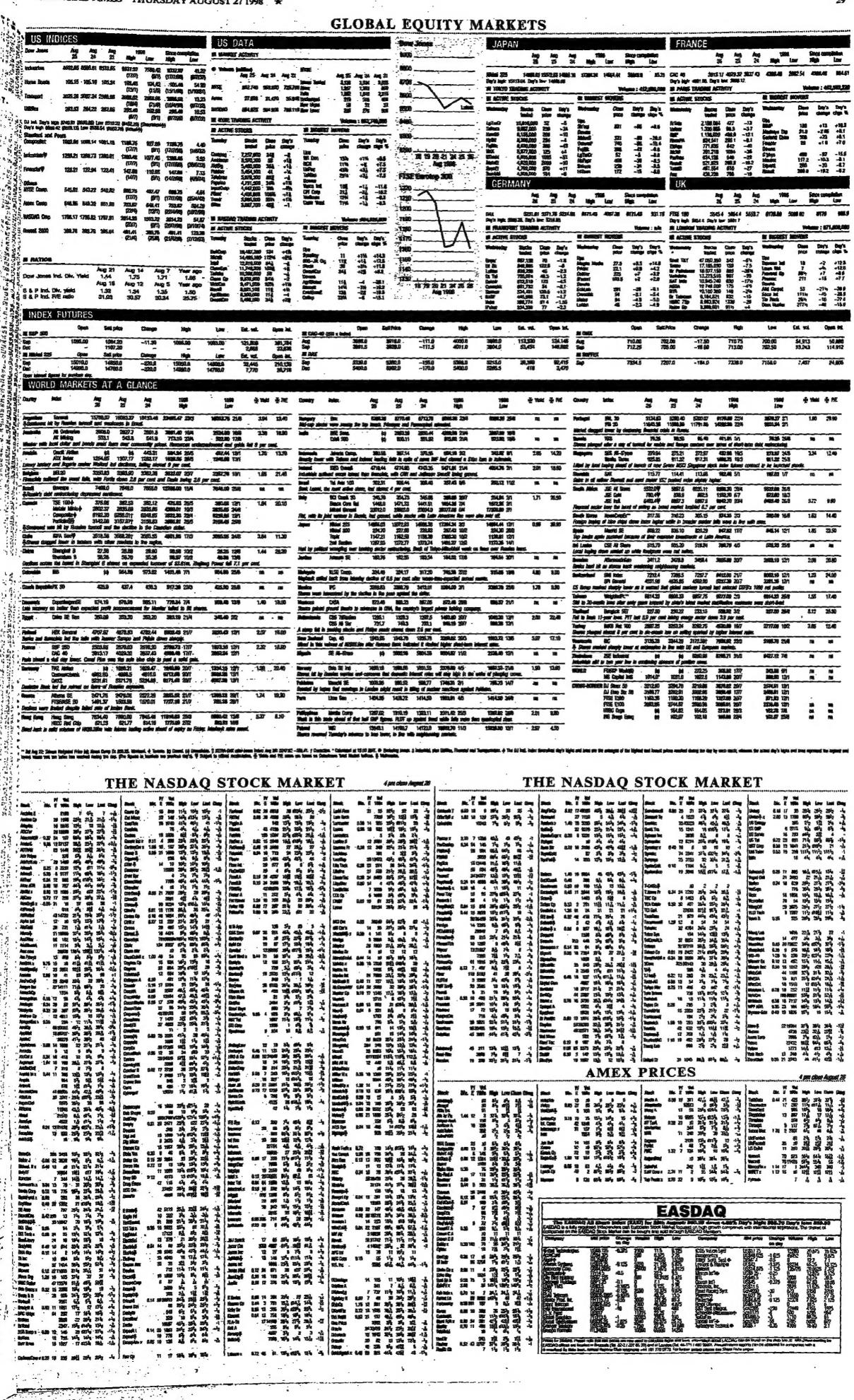
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WORLD OVERVIEW

Hopes that the correction in global stock markets might be over were dashed yet again yesterday as the latest developments in the Russian crisis put a stop to the rally, urites Philip Coggan.

The terms of the Russian restructuring, announced late on Tuesday. were disappointing to overseas investors, effectively locking them into roublea long period.

Trading in the rouble against the dollar was suspended, and then declared void, on the Moscow Interbank Currency Exchange. But the rouble/D-Mark rate was fixed at 7.6, compared with 4.4995 on Tuesday, a 40.8 per cent decline on the day. That implied a rouble/dollar rate of almost 14 to the dollar. The Russian central bank said it had stopped defend-

ing the currency. Mean- while shares in German turn things around," he But not everyone was while, the Moscow stock banks were battered includ- added. "We need a period of gloomy. Joe Rooney, global market closed down 13.8 per

Russia represents only a very small proportion of world trade, but the markets nevertheless had plenty of issues to concern them; nota-Credit Suisse warned that the profits of its investment bank, Credit Suisse First Boston, would be adversely affected in the second half.

The Russian bear inflicted

hefty damage on FRANK-

FURT as the hard-hit bank-

ing sector, heavily exposed to Russia, led the market

down 3 per cent. The Xetra

Dax index, down to 5,208.36

at one stage, finished 159.41 lower at 5,247.62.

Tuesday's news of Moscow's

restructuring package for

around \$40bn in rouble-de-

nominated domestic debt.

Deutsche Bank led the

retreat with a fall of DM7.30

to DM122.20 as Standard and

Poor's added to the gloom by

lowering the bank's

long-term credit rating to

Commerzbank lost DM2.91

to DM54.10 and Dresdner

Luithansa made an early attempt to buck the down-

ward trend after Tuesday's

first-half results. But by the

close, the shares were

ZURICH was pulled down

CS Group as the bank said

that turmoil in global mar-

kets, most notably Russia,

had reduced its investment

bank CS First Boston's 1998

net profit to around \$500m

by August 25, from \$754m in

CS Group lost SFr13.50 to

SFr285. Some analysts noted.

however, that recent market

rumours had put CSFB's

the first half.

a 4.5 per cent tumble in

DM2.40 lower at DM45.

Bank DM3.36 to DM87.89.

The setback came after

while, the Moscow stock banks were battered including Deutsche, which also lost its AAA credit rating

"The closest parallels are with the Mexican default in 1982," said Matthew Merritt emerging markets strategist bly the effect on banks at ING Barings. "This adds exposed to Russian debt. to the contagion effect sweeping through emerging markets and puts pressure on countries with currency

market, the bank's state-

ment might have been

other financials. UBS, up 3.5

per cent on Tuesday as first-half net profit exceeded mar-

ket expectations, gave up

SFr13 to SFr524. Among

insurers, Zurich dropped

Re lost SFr105 to SFr3,480.

remained under pressure for

a second straight day. Esec.

which lost 16.6 per cent

when it issued a profits

warning on Tuesday, turn-

bled another SFr285 to

SFt715 after hitting an intra-

The SMI index finished

177.8 or 2.4 per cent lower at

day low of SF1660.

SFr44 to SFr961 and Swiss

The high-tech sector

price higher.

Banks lead Frankfurt lower

relative stability in emerging markets before individual markets can break way from the pack."

European markets were the worst affected by the Russian news, with the CAC 40 in Paris and the Dax in Frankfurt dropping by 2-3 per cent. Wall Street did nothing to help sentiment, with the Dow Jones Indus-trial Average quickly falling

and the AEX index closed

down 29.61 or 2.6 per cent to 1,133.56. Overall turnover

remained low and trading

was largely technical led by

options related selling.
Among financials, ING

lost F1 6.50 or 4.8 per cent to

Fl 129.60 ahead of today's

Amey, due to report next

week, was down FI 5.70 or 4.2

Philips was among the

sharpest decliners, tumbling

F17.60 or 5 per cent to

Fl 143.60 on its warning that

its mobile telephone unit,

Philips Consumer Communi-

cations, would post losses

this year, and reports that

PARIS skidded 2.9 per cent

as rumours about the

Moscow political situation

hit the market. The CAC 40 index lost 11615 to 3,913.17.

MILAN fell 2.5 per cent on

across-the-board selling,

with the Mibtel index down

Stocks with Latin Ameri-

can ties lost ground with Parmalat, the dairy group,

down L110 to 12,670 and

Pirelli losing L272 to L5,108.

Fiat was L265 lower at L6,084

on its exposure to Russia.

The group has a joint ven-

ture with Russia's Gaz di

Nizhny Novgorod to make

MADRID stumbled as

stocks with large exposure

to Latin America lost ground

and the general index fell

150,000 car windows a year.

591 or 2.5 per cent to 28,012.

PCC's chairman Mike

McTighe had resigned.

per cent at F1 130.30.

strategist at Lehman Brothers, remains sanguine

correction turning into a

26.88 or 3.2 per cent to 809.22. Banco Santander fell

Ptal75 or 5.5 per cent to

Pta3,030, and Banco Bilbao

Vizcaya plunged Pta200 or

8.7 per cent to Pta2.106. The

two banks accounted for

about a quarter of trading.

also shunned because of its

Latin American ties, losing

STOCKHOLM lost ground

led by banks and finance

shares and the all-share gen-

eral index closed down 69.82

volatility in bond and cur-

rency markets while lower-

than-expected half-year

reports published by Han-

delsbanken and FS-Banken

HELSINKI lost 3.5 per cent

as financial stocks were hit

by worries of exposure to

Russia, and the Hex index

fell 170.96 to 4,707.57. Insurer

Sampo fell FMS to FM240

and Phiola FM17 to FM218.

Banking group Merita lost

ISTANEUL plunged almost 8 per cent to a six-month low

on salling sparked by higher

tral bank raised its money

rates to curb dollar demand

triggered by the Russian cri-

sis. The IMKB National-100

index fell 255.99 to 2,997.25.

Written and edited by Michael

Morgan, Esniko Terazono, Peter Hall and Angela Blassdale

erest rates after the cen-

FM1.80 to FM30.70.

also hit share prices.

or 2 per cent at 3,330.37.

Pta85 to Pta3,060.

first-half results while Fortis Pta6,430 while Endesa was

Telefónica lost Pta280 to

arguing that "the downside is limited, so long as interest rates and inflation are coming down, and value exists in equity markets. It is difficult to believe we're heading for a global depression. As long as the US and European economies remain sound itis hard to see the current **EMERGING MARKET FOCUS**

Jo'burg attacked on two fronts

The Johannesburg stock exchange, already under pressure from shaky global markets, has been hit by a spate of bad news on the domestic front this week, highlighting South Africa's economic and political diffi-

Disappointing inflation figures, rumours of troubles in the banking industry and a bomb blast in Cape Town caused the all share index to plunge about 6 per cent or 365.6 to 5,532.0 yesterday. Rarlier in the day, the market dropped about 9 per cent in hectic trade reminiscent of last October's correction.

The market opened weaker amid concerns about the Russian financial crisis, and sentiment quickly worsened after the release of producer inflation data for July, showing the effects of the currency crisis.

Producer inflation shot up to 3.7 per cent from June's 2.8 per cent, raising fears that interest rates would have to remain high for a long time. The inflation figures followed growth data, which showed the economy dangerously close to recession. Interest rates are already at their highest level for about 13 years as a result of the speculative attack on the rand, which has wiped more than 20 per cent off its value against the dollar

since late May. The market was also neryous after the bomb attack in the Planet Hollywood restaurant in Cape Town on Monday evening in which two people died and 27 were injured. Moslem militants claimed responsibility for the blast. Analysts said the blast would intensify concerns about South Africa as an investment destination when investors' appetite for risk in emerging markets

was already disappearing. Foreigners' risk-aversion has triggered a stampede out of South Africa's bond mar-

sure on the rand and intensifying concerns over interest suffer bad debt problems and their margins will remain under pressure has pum-melled banks' shares.

rumours that small banks were in trouble continued, shaving about 7 per cent or 718 points off the value of the financial index to 9,133. At one stage the index was down more than 9 per cent

The rand lost about 10 cents of its value against the dollar vesterday, but it was not enough to inspire the gold sector. The gold index lost 59 points or almost 7 per cent to 780 as the bullion price remained soft.

4.39.77

g Billion

Engen, whose shares surged more than 36 per cent to R19.75 on news that Malaysian oil company Petronas had made an offer to buy out minorities for a generous R23

Dow rallies strongly after big early fall

Wall Street was shaken by further concerns centred on Russia, and in morning trade the Dow Jones Industrial Average was down more than 120 points at one stage, urites John Labate in New

The latest Russian turnoil sparked fresh fears that other emerging markets would be dragged lower. By midday, the mood among US investors had improved but still remained negative. On the New York Stock Exchange declining shares outpaced winners by more than 3 to 1.

"It's one thing when you have a few microscopic economies faltering, but it's another when every emerging market around you is under severe pressure," said Bill Mechan, chief market analyst at Cantor Fitzgerald.

By early afternoon, the Dow was off its worst morning levels, down 22.65 to 8,580.00, and the broader Standard & Poor's 500 was off by less than a point at 1.092.03.

There is a bear market going on. It's just being masked by a small number of large-cap stocks, the nifty-." Mr Meehan added.

While most Dow shares

ground including Merck, up \$11; to \$134%, and IBM, which gained \$314 to \$1314. Small company and technology shares were hit by the most aggressive selling, sending the Russell 2,000 index down 1.6 per cent or 6.25 to 383.51. The Nasdaq composite, which is weighted in technology shares, was off 14.91 to

On the domestic front,

sentiment towards the

region caused by the Rus-

by blue chips, and the Bovespa index fell 140 or 1.8 per

cent to 7,509. Eletrobrás, the

energy holding company, fell

R\$0.89 or 4 per cent to

R\$22.81 while oil group Petrobrás lost R\$6.50 or 4.2

SAO PAULO declined, led

the latest sign of US economic growth in the durable goods report. In July, durable goods orders rose 2.4 per cent, with orders for con-

sumer goods accounting for much of the gain. Financial shares, which had been on the rebound earlier in the week, were down again, sending the Philadelphia Stock

Exchange's banking index down 3.64 to 747.40. Citicorp fell \$1% to \$134% and J.P. Morgan was off \$1% to \$119%. Applied Materials, the semiconductor equipment producer, fell 5 per cent or \$1% to \$29% one day after the company said it would cut its global work-

force by 2,000. CBS was down \$1% or almost 5 per cent to \$25% after a report that the company may be forced to reduce its workforce.

Despite the downward pressure, shares of Dell Computer managed to advance up \$34 to \$1274. Adobe Systems was up by more than 8.6 per cent or \$2% to \$26% on speculation that the company is a takeover tar-

TORONTO was more than sion as investors continued to respond cautiously to Ruspushed lower, some gained sla's unfolding economic tur-ground including Merck, up moll and Canada's falling ite index fell 65.18 to 6,190.83

in volume of 39.3m shares. Overall, 13 of the market's Bank of Canada was 85 cents lower at C\$64.90. The heavily traded Oxford Properties

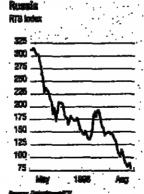
Moscow plunges 13% after debt swap deal

government's debt swap deal, announced late on Tuesday, sent MOSCOW plunging another 13.8 per cent. The RTS index dropped 12.24 to 76.26 but analysts noted that trading volume of \$4.6m was among the lowest recorded

The latest fall extended the market's decline since its high for the year in early January to 81.5 per cent. Analysts said many bankers and investors found the debt swap conditions very harsh and unacceptable.

Some major western banks reported the Russian government had also defaulted on coupon payments on government debt not covered by the restructuring plan.

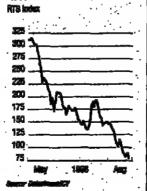
depressed by another sharp central bank's announce-



down its interventions to

The mood was further

ment that it would scale



defend the currency. BUCHAREST, a loser in the eight previous sessions, plunged another 9.3 per cent as small investors rushed to sell to cover losses in neighbouring markets. The composite index dropped 49.76 to to an all-time low of 488.13,

14 sub-indices were lower, led by a 2.9 per cent fall in the financial services sector. Among the banks, Royal

São Paulo falls sharply

Latin American markets which accounts for about were hit by deteriorating half of overall trading, lost R\$1.50 to R\$97. BUENOS AIRES fell 2 per cent with the Merval down 8.17 to 407.02 in volatile trading. Banco Galicia lost 0.33 pesos to 3.52 pesos.

MEXICO CITY numbled on currency fears as the peso lost ground against the dollar in early trading. The IPC index lost 2.7 per cent or

Nikkei slips back below 15,000

ASIA PACIFIC

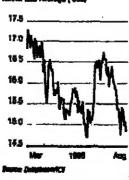
Political disputes that have delayed the government's response to the crisis in an's banking sector pulled TOKYO lower as investor concerns about the financial sector intensified, writes Alexandra Harney

The Nikkei 225 average fell 206.9 or 1.4 per cent to close at its low for the session of 14,866.03, after climbing as high as 15,113.04. It was the second time this week the index had fallen below the 15,000 benchmark, after a rally at the end of last week. The Topix index of first section shares fell 15.37 or 1.3 per cent to 1,147.21.

Banking stocks were hurt by continued difficulties in the political debate over how to tackle the financial sector's bad debt problems.

A meeting of a government committee charged with finding a solution to the crisis was cancelled after politicians could not agree on a policy for the Long Term Credit Bank, the ailing financial institution that announced a restructuring plan last week. LTCB shares lost Y5 to Y52 on renewed concerns about its financial

Other banks fell as well. Sakura lost Y24 to Y259, Fuji



Bank Y43 to Y396 and the Bank of Tokyo-Mitsubishi Y51 to Y1,095. Sanwa Bank was down Y50 to Y917. Sumitomo Trust, which has been in merger talks with LTCB, tumbled Y29 to Y364.

Exporters were also heavily traded. Nippon Steel lost Y4 to Y234, Kawasaki Steel fell Y10 to Y209, and Hitachi tumbled Y17 to Y732. Analysts said this was because of concerns about the year's earnings.

Volumes were heavier than in recent weeks at 400m shares. Decliners outnumbered advancers 937 to 217. with 123 shares unchanged. In Osaka, the OSE index lost

SEOUL shrugged off news

of financial problems at Dongshin Pharmaceutical and the composite index rose 7.33 or 2.4 per cent to 317.56. Investors took in their stride reports that Dongshin had defaulted on payments of notes worth Won4.2bn. However, the stock exchange suspended trading in the

traded at Won2,420, up Won20 from the previous Overseas investors bought the index ahead of the increase in weighting in the Morgan Stanley Capital International's Emerging Markets Free index from the

shares, which were last

current 2.5 per cent to 4.9 per cent from next month. SYDNEY edged lower as nervousness over the Australian dollar and commodity prices weighed on shares. The All Ordinaries index closed down 19.70 at 2,608.00

after a volatile day. Telstra fell 14 cents or 3 per cent to A\$4.47 as it announced full-year profits. Traders said disappointment over its failure to announce a special dividend had triggered profit-taking.

MANILA lost ground ahead of tomorrow's release of first half GDP figures, and the composite index closed down 23.17 or 1.8 per cent at 1,287.02. Holding company

per cent to 6.70 pesos. San Miguel lost 1.50 pesos or almost 4 per cent to 36.50 on reports that First Pacific of Hong Kong had sold its stake in the foods group. investors were already pessimistic over the shares

on San Miguel's sale of its 45 per cent stake in Nestlé Philippines to majority shareholder Nestlé for 30hn pesos. HONG KONG gave in to profit-taking with less active buying seen by the government than in recent sessions. The Hang Seng index

lost 55.69 to 7,834.40. JAKARTA lost 1.7 JAKARTA lost 1.7 per cent, reflecting falls in Telkom and Indosat as the strengthening rupiah made the two stocks look more expensive locally than in New York where both are also listed. Telkom fell Rp275 to Rp2,500 on concerns over prospects after its heavy losses in the first half of the year, while Indosat lost Rp325 to Rp8,600.

The composite index finished 6.22 down at 360.93. KARACHI climbed 24 per cent after US and Pakistani officials reported progress in talks on nuclear issues in London, raising hopes sanctions would be lifted soon. KSE-100 index ended

CENTRAL BANK OF NIGERIA



Request for Proposal - Automated Clearing System

- 1. The Central Bank of Nigeria (on behalf of the Nigerian Bankers' Committee) invites tenders for the automation of the Nigeria Cheque Clearing System, beginning with the Lagos Clearing Zone.
- The key business requirements are as follows:
 - i. All clearing instruments must be fully encoded with Magnetic Ink Character Recognition (MICR) data, in accordance with the standards set by the Bankers' Committee.
 - ii. All MICR-based item processing would be limited to the Participating Bank Clearing Centres (PBCCs) and their related bank branches.
 - iii. Transmission of clearing data would be over secure, dedicated communication links.
 - iv. The clearing system would be flexible, modular and scalable enough to allow for integration with other payment systems, enhancements and changes, in line with global trends.
- 3. Prospective Solution Providers are expected to be internationally reputable companies with demonstrable expertise in the design, development and implementation of:
 - Secure and reliable metropolitan and wide area networks;
 - ii. Relevant item processing and computing infrastructure;
 - iii. A robust, state-of-the-art clearing application software.
- Full bidding document is available from the address below on payment of a nonrefundable application fee of N45,000.00 (or US\$500.00) payable to Automated Clearing System Account with CBN Lagos, effective from 21st August, 1998. The final date for receipt of tenders will be 12th October, 1998.
- 5. The Bankers' Committee is not obliged to explain or enter into any discourse on the selection process and the resultant short-list.

Chairman, Enlarged Clearing House Committee (Director, Banking Operations Department) Central Bank of Nigeria P.M.B. 12194 Tinubu Square Lagos, NIGERIA

Telephone: +234-1-266 3117 Fax: +234-1-266 9013 Nacs@linkserve.com.ng

pumpies

NAME

Bearish sentiment towards the financial sector was intensified by rumours that a small South African bank was about to fail as a result of heavy losses in the bond market. The Registrar of Banks said it had looked into the matter, and had not any South African bank. Despite the denials,

The only bright spark on the day was chemical group

Greta Stevn